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# Financial Performance Analysis by Using Financial Ratios at CRRC. Co., Ltd in China

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## ABSTRACT

***Purpose*** *This research is aimed at analyzing in this paper is financial performance by using financial ratios at PT. CRRC. CO., LTD in China.* ***Methodology*** *The analytical method used 4 main factors, namely liquidity, solvability, activity, profitasbilitas.* ***Findings*** *The results showed that liquidity capacity had been increased, the company's financial liabilities returning loans were also smaller and the speed of total asset turnover was accelerated, even though the ability of profitability had increased but other expenses of the company were many. The company's financial condition is quite stable and promising. But still have to be careful with the position in the market compared to its competitors.* ***Suggestion*** *The company must ensure its future strategy in facing competition and strengthening its position in the market.*

***Keywords***: *Financial performance*; *Financial ratio.*

## ABSTRAK

**Tujuan** Penelitian ini bertujuan untuk menganalisis dalam tulisan ini kinerja keuangan dengan menggunakan rasio keuangan pada PT. CRRC. CO, LTD di Cina. **Metodologi** Metode analisis menggunakan 4 faktor utama yaitu likuiditas, solvabilitas, aktivitas, profitasbilitas. **Temuan** Hasil penelitian menunjukkan bahwa kapasitas likuiditas meningkat, kewajiban keuangan perusahaan mengembalikan pinjaman juga lebih kecil dan kecepatan perputaran total aset dipercepat, meskipun kemampuan profitabilitas meningkat tetapi biaya lain perusahaan banyak. Kondisi keuangan perusahaan cukup stabil dan menjanjikan. Namun tetap harus berhati-hati dengan posisinya di pasar dibandingkan para pesaingnya. **Saran** Perusahaan harus memastikan strategi kedepan dalam menghadapi persaingan dan memperkuat posisinya di pasar.

**Kata Kunci**: Kinerja Keuangan; Rasio Keuangan.

## INTRODUCTION

CRRC Corporation Limited. (known as CRRC) is a registered company that was approved by the State Council and State-owned Assets Control Agency and Administration Commission by merger by China CNR Co., Ltd. and CSR Co.,Ltd. according to the principle of equality (Dodilet, 2015). Approved by the Securities Regulatory Commission of China, on June 8, 2015, CRRC was

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successfully listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange. There are 46 wholly owned and controlled subsidiaries and more than 180,000 employees, with its headquarters in Beijing.

CRRC has inherited all the business and assets of China CNR Co., Ltd. and CSR Co., Ltd. It is the world's leading supplier of railroad equipment with a complete range and the best in technology. The company's main business includes R & D, design, manufacture, repair, sales, rental and technical services for rolling stock, urban rail transit vehicles, engineering machinery, all kinds of electrical equipment, electronic equipment and spare parts, electrical products and environmental protection equipment, consulting services, industrial investment and management, asset management, import and export.

In 2016, CRRC products were exported to 101 countries and regions around the world, covering 11 market regions on six continents, and export products were increased from low-end to high-end, the export market is shifted from Asia, Africa and Latin America to Europe and the United States, and the form of export is combined with exports from products to capital, technology, services and other forms. CRRC's revenue in 2015 was $37.8 billion, ranking 266 on the Fortune Global 500 List. CRRC's R&D investment was EUR 1,408 billion, ranking 96th to the World Top 2,500 R&D Investors. From 2011 to 2014, the value of CRRC's overseas contracts was $1.925 billion, $3.588 billion, $3.96 billion and $6.747 billion, with an average annual growth rate of 55.7%.

CRRC has always adhered to the core values of the brand: Customer oriented (Customer), Responsible (Responsible), Reliability (Reliable), Creative (Creative). Guided by customer needs, we are committed to creating the most valuable and reliable products and promises for our customers. At present, the world's leading railway equipment product technology platform and manufacturing base has been built. The product range represented by high-speed EMU (Electric Multiple Units), high-powered locomotives, trains and urban rail vehicles has reached the world advanced level and can adapt to various complexities. Geographical environment to meet diverse market needs. The high-speed EMU series products produced by CRRC have become an important business card for China to show the world its development achievements.

Based on table 1, it can be seen that from 2014-2015 income, receivables, inventories, total assets and total debt of PT. CRRC.CO., Ltd have increased. According to Table 1, it can be seen that from 2014-2015 income increased by 8.98%, receivables increased by 22.4%, inventories increased by 28.96%, total assets increased by 4.31% and total debt increased by 29.68%.

The following are tables that describe the main accounting data and financial indicators for 2014-2015:

**Table 1. Finacial Indicator Data of CRRC.CO.,Ltd 2014-2015**

| Description | Tahun 2014 | Tahun 2015 |
|---|---|---|
| Revenue | 221.976.555.000 | 241.912.636.000 |
| Receivables | 33.541.850.000 | 72.514.400.000 |
| Stock | 30.663.150.000 | 59.786.200.000 |
| Total Asset | 298.813.676.000 | 311.693.729.000 |
| Total Debt | 99.043.280.000 | 198.119.160.000 |

Source: Data from PT CRRC.CO.,Ltd for 2014-2015

Financial reports have proven to be helpful for investors in seeing the state of company performance (Aniefor & Oboro, 2015; Olayinka, 2022). Investment decisions require in-depth analysis, especially by looking at the financial reports that are displayed (Olayinka, 2022). And even the evaluation results regarding financial reports can be affected by changes in the financial reports that are displayed (Atukalp, 2023). From the company's financial statements can also assess its position compared to its competitors.

Apart from external parties, financial reports are also very necessary for managers within the company, to estimate decisions and steps to be taken next (Hasanaj & Kuqi, 2019). Financial reports are very important because they are able to predict the criteria or company's financial performance (Herawati, 2019). As with being able to find out whether a company will experience financial distress, this requires an analysis of financial reports in the form of financial ratios (Habib et al., 2020). Furthermore, the ratios for leverage, activity, liquidity and profitability are able to explain the variance of financial distress. (Krisman & Krisandi, 2019). Therefore, this study aims to describe by providing the company's financial statements as a reference and an overview of the company's financial health.

## METHODOLOGY

Ratio analysis is the most widely used analytical tool of financial statements. According to Keown et.al (2008:74), financial ratios are rewriting accounting data into comparative form. The advantage and use of financial ratios as a measure of financial performance is that it is easy to calculate, as long as the required data is available in full. The advantages of financial ratios are as follows: a) Ratios are numbers or statistical summaries that are easier to read and interpret. b) It is a simpler substitute for the information presented in very detailed and complicated financial statements. c) Knowing the company in the midst of other industries. d) Very useful for material in filling decision-making models and prediction models (Z-Score). e) Standardize company size. f) It is easier to compare the company with other companies or see the company's development periodically or time series. g) It is easier to see company trends and make predictions in the future.

The weakness of the financial ratio is that its calculation is based on accounting data. One of the drawbacks of accounting metrics is that the ratios are derived from book values. Thus, the value does not reflect the existing value in the market. Some of the weaknesses by using financial ratio analysis are: a) The use of financial ratios will provide a relative measurement of the condition of a company. b) Financial ratio analysis can only be used as an initial warning and not a final conclusion.c) Any data obtained that is used in the analysis is sourced from the company's financial statements.

Many financial ratio measurements are artificial. Artificial here means that the calculation of financial ratios is done by humans and each party has a different view in placing the size and especially the justification for the use of these ratios.To solve the problem in this research, the writer uses descriptive method by using financial ratio analysis. Descriptive research is research conducted to determine the value of independent variables, either one or more (independent) variables without making comparisons or connecting with other variables.

## DISCUSSION

### Liquidity Analysis

The liquidity ratio is the ratio of current assets to current liabilities, each current liability has how much liquid assets as a guarantee of repayment. Is to measure the company's liquidity asts, proving the ratio of short-term debt serviceability is the most common. To evaluate the company's current assets, before the expiration to pay current liabilities.

In general, the company's liquidity ratio, the greater the company's short-term debt, the stronger the ability to pay, the smaller the company's financial risk, guaranteed creditors, the higher the level of security. Based on the data (RMB: Thousand Yuan) and the above formula, the Current Ratio (%) and Fast Ratio (%) can be calculated as follows in table 2. CRRC's Liquidity Level in 2016-2018 is still good, changes are small and stable. To analyze the current ratio and quick ratio, 2017 was the best, the figures were 1.25% and 0.98%, 2016 was the lowest, showing 1.19% and 0.90%.

**Table 2. Liquidity Analysis**

| Year | Liquidity | |
|---|---|---|
| | Current Ratio (CR) | Quick Ratio (QR) |
| 2016 | 220,597,096 / 184,227,823 = 1.19% | (220,597,096 - 54,418,229) / 184,227,823 = 0.90% |
| 2017 | 255,504,020 / 203,475,565 = 1.25% | (255,504,020 - 55,234,835) / 203,475,565 = 0.98% |
| 2018 | 227,512,128 / 188,351,436 = 1.20% | (227,512,128 - 55,121,500) / 188,351,436 = 0.91% |

Source : processing data

The results of the liquidity analysis seen from table, it can be concluded that the level of CRRC's Liquidity in 2016-2018 is still good, changes are small and stable. During this period, current assets increased significantly, indicating that liquidity capacity has been enhanced, effectively ensuring the group's ability to repay debt.

**Solvability Analysis**

In general, the debt to assets ratio and debt to equity ratio analyze the company's ability to pay its long-term obligations. If the debt to assets ratio reaches or exceeds 100%, the company has no net assets or is insolvency. The lower the debt to equity ratio, the better the company's long-term financial situation, the rights and interests of creditors are guaranteed. The ratio should generally be less than 1.0.

Based on the data (RMB: Thousand Yuan) and the above formula, the Total Debt to Total Assets Ratio (%) and Debt to Equity Ratio can be calculated as follows:

**Table 3. Solvability Analysis**

| Year | Solvability | |
|---|---|---|
| | Debt to Asset Ratio (DAR) | Debt to Equity Ratio (DER) |
| 2016 | 214,506,644 / 338,322,220 = 63.4% | 214,506.644 / 123,815.644 = 1.73 |
| 2017 | 233,286.846 / 375,206,468 = 62.2% | 233,286.846 / 141,919,622 = 1.64 |
| 2018 | 207,838,423 / 357,523,050 = 58.1% | 207,838,423 / 149,684,627 = 1.39 |

Source : processing data

Total Debt to Total Assets Ratio and Debt to Equity Ratio from 2016 to 2018 decreased, Total Assets to Total Debt decreased from 63.4% at 58.1%, Debt to Equity Ratio decreased from 1.73% at 1.39%.

According to the results, the Total Debt to Total Assets Ratio from 2016 to 2018 decreased, so the debt owned by the company will also be smaller and this means that the company's financial obligation to repay loans is also getting smaller. The Debt to Equity Ratio has also fallen in three years, the ratio is getting bigger, the company's financial risk is getting smaller and the ability to pay long-term debt is stronger. But the creditor's equity is guaranteed, the ratio must generally be less than 1.0, so the creditor's equity is guaranteed and long-term finance is getting better even though the ratio always drops in three years.

**Activity Analysis**

Through ratio index analysis, it can reflect operational efficiency and changes in the company's total assets in the current year and the previous year. In general, the higher the value, the faster the total asset turnover of the company. The stronger the sales capability, the higher the efficiency of asset utilization.

Based on the data (RMB: Thousand Yuan) and the above formula, it is calculated as follows:

**Table 4. Activity Analysis**

| Year | Asset Management Ratio | | |
|---|---|---|---|
| | Inventory Turnover Ratio | Total Asset Turnover | Fixed Asset Turnover |
| 2016 | 229,721,597 / 54,418,229 = 42.2% | 229,721,597 / 338,322,220 = 67.9% | 229,721,597 / 56,940,622 = 40.3% |
| 2017 | 211,012,935 / 55,234,835 = 38.2% | 211,012,935 / 375,206,468 = 56.2% | 211,012,935 / 57,243,562 = 36.8% |
| 2018 | 219,082,641 / 55,121,500 = 39.7% | 219,082,641 / 357,523,050 = 61.2% | 219,082,641 / 57,390,729 = 38.1%. |

Source : Processing data

Total assets turnover was low from 2016 to 2017, showing 67.9% to 56.2%. It rose again from 2017 to 2018, showing 56.2% to 61.2%. Fixed Assets Turnover and Inventory Turnover showed 40.3%, 36.8%, 38.1% and 42.2%, 38.2%, 39.7% respectively.

Through activity analysis from Chapter III it can be said that Total assets turnover was low from 2016 to 2017, increasing again from 2017 to 2018, the main reason was the decrease in the velocity of current assets, followed by changes in the asset structure. When the ratio of current assets to total assets increases, asset liquidity is increased and the total asset turnover speed is accelerated.

**Profitability Analysis**

Profitability analysis aims to measure the company's ability to earn a profit, both in relation to sales, assets, and own capital. Based on the formula and data, the results are as follows:

Profitability increased but NPM, ROE and ROA fell in three years, NPM in 2018 was the lowest, the figure was 5.93%, ROE fell from 11.22% to 8.68% in 2016-2018, ROA in 2017 was the lowest, the figure was 3.46%.

**Table 5. Profitability Analysis**

| Year | Profitability | | | |
|---|---|---|---|---|
| | Gross Profit Margin | Net Profit Margin | ROE | ROA |
| 2016 | 47,756,930/229,721,597 = 20.78% | 13,894,413 / 229,721,597 = 6.04% | 13,894,413 / 123,815,576 = 11.22% | 13,894,413 / 338,322,220 = 4.10% |
| 2017 | 47,858,495 / 211,012,935 = 22.68% | 12,997,418 / 211,012,935 = 6.15% | 12,997,418 / 141,919,622 = 9.15% | 12,997,418 / 375,206,468 = 3.46% |
| 2018 | 48,556,620/ 219,082,641 = 22.16% | 12,998,507 / 219,082,641 = 5.93% | 12,998,507 / 149,684,627 = 8.68% | 12,998,507 / 357,523,050 = 3.63% |

Source : Processing data

From the results of the profitability analysis, it can be seen that profitability increased but NPM, ROE and ROA fell in three years, 2018 was the lowest NPM. The bigger the ratio, the stronger the company's profitability. However, according to the results, it can be seen that the index has decreased in three years, except for the increase in profit margins. This means the ability to increase profitability but the company's other expenses are many.

Through the research and analysis we can basically understand the opportunities and challenges that the CRRC may face in its future development, as well as its own strengths and weaknesses. The company's financial strategy objectives should be based on value creation and value management. To establish a financial management and control system under the new corporate governance model and improve enterprise execution, to maximize the value of CRRC's shares, to establish new business growth points for CRRC through capital operations, to promote the implementation of effective strategies with comprehensive budget management as leader.

Effectively allocate resources and improve business operation efficiency, use centralized fund management as a means to optimize resource structure and improve capital operation efficiency and efficiency, use information technology as a platform to strengthen the basic work of finance and promote financial management innovation; Improve internal control, control financial management risk, and achieve sustainable and healthy joint-stock company development.

**Competitor Analysis**

There are several competitors in this industry, but the research takes the ones that are close to the top and bottom in terms of company size in terms of the number of workers employed. Researchers compared with two companies, namely China State Construction Engineering Corp Ltd which is larger and China Communications Construction Co Ltd which is smaller.

**Table 6. Comparison with Competitor in Sales Growth and Net Income Growth**

| Year | China Railway Construction Corp Ltd | | China State Construction Engineering Corp Ltd | | China Communications Construction Co Ltd | |
|---|---|---|---|---|---|---|
| | Sales Growth (%) | Net Income Growth (%) | Sales Growth (%) | Net Income Growth (%) | Sales Growth (%) | Net Income Growth (%) |
| 2019 | 13.74 | 12.61 | 18.39 | 9.52 | 13.19 | .91 |
| 2020 | 9.62 | 10.87 | 13.75 | 7.27 | 12.91 | -17.62 |
| 2021 | 12.05 | 10.26 | 17.11 | 14.43 | 9.33 | 11.37 |

Source : summarize from global data

**Table 7. Comparison with Competitor in Total Revenue**

| year | China Railway Construction Corp Ltd | | China State Construction Engineering Corp Ltd | | China Communications Construction Co Ltd | |
|---|---|---|---|---|---|---|
| | Total Revenue US$ | Net profit margin (Net Income) (%) | Total Revenue US$ | Net profit margin (Net Income) (%) | Total Revenu e US$ | Net profit margin (Net Income) (%) |
| 2019 | 125,548 | | 214,652 | | 83,620 | |
| 2020 | 131,929 | | 234,062 | | 90,505 | |
| 2021 | 158,144 | | 293,235 | | 105,860 | |
| 2022 vs 2021 | | -1,6%(10,3%) | | -2,2%(14,4%) | | 1,9%(11.4%) |

Source : summarize from global data

Looking at the table, sales growth and net income growth are still quite stable even though sales growth in 2020 has decreased, but it can be seen that all companies have also experienced a decline this year. Maybe because of the pandemic. China Railway Construction Corp Ltd needs to be careful because judging from the net income, the increase between 2021 and 2022 is not as good as its competitors. In addition, its net profit margin has also decreased, and is below that of smaller competitor China Communications Construction Co Ltd. This is certainly a concern. Overall, China Railway Construction Corp Ltd is still stable and able to compete well.

## CONCLUSSION

Overall, the summarized results state that the company's financial condition is still very good. Has a performance that is still growing. It is necessary to be careful with positioning in the market, because many competitors have similar growth criteria.

## Implication

In order to ensure the realization of strategic objectives, the company will divide the strategic objectives according to the actual market environment and the company's internal resource allocation, and formulate supporting targets and suggestions accordingly:

a. Suggestions for liquidity ratio

CRRC occupies a leading position in the domestic rail transit equipment market share. The design, manufacture and product technology level of rail transit equipment has reached the international advanced level in the same period, and remains in line with the international advanced level. So developing the necessary financing is done by increasing debt and increasing shares, capital structure steps by moving towards debt greater than the rights and interests of the company.

b. Suggestions for solvency ratio

Established a good research system for product research and development and industrial development with an international advanced level, and research and development costs account for more than 6% of sales revenue. And CRRC can also continue to meet the demand for investment funds through debt financing, in order to increase profitability.

c. Suggestions for activity ratio

Improve group company operations capability and operational efficiency of company assets, build advanced internal industrial chain and supply system of key components and raw materials to support sustainable development of CRRC. Building a modern enterprise system, becoming a standard enterprise-owned enterprise, and initially forming a capital operating platform. To by reducing costs to increase the income business net is very important, for its own development has a very positive meaning

d. Suggestions for profitability ratios

Increase the use of net assets and information management system level, and host manufacturers to fully promote ERP. The physical labor productivity of the main locomotive product has reached the international advanced level in the same industry. The ideal realm and life values shared by all employees are a corporate culture with CRRC characteristics.

## Research Limitations and Suggestions

This research is only a descriptive research so further research needs to be done using inferential statistics to be able to draw conclusions. This study provides an initial description and insight for further research regarding financial performance in the railway sector, especially in China.

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