ASSIGNMENT

Financial Management

TOPIC

Ratio Analysis on Shinepukur Ceramics Limited
(2008-2010)

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1.0 Introduction

This assignment is based on some Financial Ratios and their analyses based on a Bangladeshi company listed in Stock Market. This study is on the three years' data (2008-2010) of the company 'Shinepukur Ceramics Limited', which are collected from their annual report of the respective years. Due to lack to data, this study doesn't cover any other industrial comparison. So, this assignment is majorly dependent on the company specific data set gathered from the company annual report. This study covers some major ratios of Financial Management.

2.0 Required Data Set Collected from the Annual Report

	Items	Year 2008	Year 2009	Year 2010
01	Current Asset	1,19,31,07,130	1,32,08,09,490	1,63,66,00,076
02	Net Fixed Asset	3,25,61,04,293	3,32,42,11,447	3,48,91,26,921
03	Total Asset	4,44,92,11,423	4,64,50,20,937	5,12,57,26,997
04	Inventory	85,51,08,197	85,86,74,654	84,51,95,056
05	Accounts Receivable	24,78,99,640	36,15,41,096	47,74,73,540
06	Current Liability	1,34,03,48,231	1,50,37,75,825	1,46,50,43,771
07	Non-Current Liability	73,25,00,043	66,25,33,629	92,87,24,372
08	Total Liabilities	2,07,28,48,274	2,16,63,09,454	2,39,37,68,143
09	Sales	1,52,99,18,239	1,69,57,10,571	1,92,67,45,719
10	Interest Expense	18,10,09,112	20,03,13,511	19,77,93,786
11	Net Income	17,99,15,587	17,23,71,934	25,32,47,371
12	EBIT	21,03,97,136	24,91,86,649	30,50,74,085
13	Common Equity	2,37,63,63,149	2,47,87,11,483	2,73,19,58,854
14	No. of Shares	8,40,28,320	8,40,28,320	9,66,32,568
15	Book Value of a Share	10	10	10

3.0 Ratios & Their Analyses

3.1 Liquidity

3.1.1 Current Ratio (CR)

Current Ratio = Current Asset / Current Liability

Ratio	Year 2008	Year 2009	Year 2010
Current Ratio	0.8901	0.8783	1.1171

Analysis: Year 2010 has the highest value among other which is better than the other two. Generally, the value should be more than 1 and it is better to get close to two. Since this ratio is higher in 2010, that means, the company faced less financial difficulty to meet current liability issues which is much better than the year 2008 and 2009.

3.1.2 Quick Ratio (Acid Test or QR)

Quick Ratio (Acid Test) = (Current Asset - Inventory) / Current Liability

Ratio	Year 2008	Year 2009	Year 2010
Quick Ratio (Acid Test)	0.2522	0.3073	0.5402

Analysis: Quick Ratio, higher the better. The trend leads to a better position in comparison to the last two years. It represents the liquidity position is getting better day by day.

3.2 Asset Management

3.2.1 Inventory Turnover

Inventory Turnover = Sales / Inventory

Ratio	Year 2008	Year 2009	Year 2010
Inventory Turnover	1.7892	1.9748	2.2796

Analysis: The company showed it improving efficiency in inventory management. The higher trend to inventory turnover represents that, the company has invested significant concentration to increase that value and decrease the level of old or stocked inventory. This also represents the company's procurement, supplier relation and production efficiency.

3.2.2 Daily Sales Outstanding (DSO)

Daily Sales Outstanding = Accounts Receivable / (Sales/365) [*Assumed 365 days a year*]

Ratio	Year 2008	Year 2009	Year 2010
Daily Sales Outstanding	59.1426	77.8214	90.4519

Analysis: In this particular case, the trend is not satisfactory. Upper trend of DSO value represents the poor credit policy or slower collection method. In this calculation, the company performed the best in year 2008 and year 2010 is the opposite. The average collection period is around 90 days; that means three months where in 2008 it was two months only.

3.2.3 Fixed Assets Turnover Ratio

Fixed Assets Turnover Ratio = Sales / Net Fixed Asset

Ratio	Year 2008	Year 2009	Year 2010
Fixed Assets Turnover Ratio	0.4699	0.5101	0.5522

Analysis: It measures how efficiently the firms' Fixed Assets (like: Plants and Equipments) been used for profit generation. Compared to the previous years, the company's development is slow but almost constant.

3.2.4 Total Asset Turnover Ratio (TAT)

Total Asset Turnover Ratio = Sales / Total Asset

Ratio	Year 2008	Year 2009	Year 2010
Total Asset Turnover Ratio	0.3439	0.3651	0.3759

Analysis: Total Asset Turnover ratio shows the similar constant slow development trend compared to the previous ratio. That means, the change in current asset don't have a bigger variation.

3.3 Debt Management

3.3.1 Debt Ratio

Debt Ratio = Total Liabilities / Total Assets

Ratio	Year 2008	Year 2009	Year 2010
Debt Ratio	0.4659	0.4664	0.4670

Analysis: Compared to the asset the company's debt is almost constant for three years, around 46%. Although it's very slow, but the ratio is upward trending, that means, the company is slowly getting more interested to finance more by other source of fund except equity.

3.3.2 Times Interest Earned (TIE)

Times Interest Earned (TIE) = Earnings Before Income and Taxes (EBIT) / Interest Expense

Ratio	Year 2008	Year 2009	Year 2010
Times Interest Earned (TIE)	1.1624	1.2440	1.5424

Analysis: Compared to the last year, the ability to pay interest has been increased but it's lower than the year 2008. Since, the company trend represents that the company is getting more interested to finance from external source of fund, it is very important to have higher value in TIE ratio.

3.4 Profitability

3.4.1 Profit Margin (PM)

Profit Margin = Net Income / Sales

Ratio	Year 2008	Year 2009	Year 2010
Profit Margin	0.1176	0.1017	0.1314

Analysis: The profit margin for 2010 is 13.14% which is the higher than the previous years. It represents the company is getting efficient in operational cost management. But this value will be higher in next years if the company becomes more cautious about cost management.

3.4.2 Basic Earning Power (BEP)

Basic Earning Power = EBIT / Total Assets

Ratio	Year 2008	Year 2009	Year 2010
Basic Earning Power	0.0473	0.0536	0.0595

Analysis: Slowly, but the upward trend of BEP continued and became very close to 6% in 2010. It represents the raw earning capacity to generate profit over utilizing the asset.

3.4.3 Return On Total Asset (ROA)

Return On Total Asset (ROA) = Net Income / Total Assets

Ratio	Year 2008	Year 2009	Year 2010
Return On Total Asset (ROA)	0.0404	0.0371	0.0494

Analysis: Almost constant trend to interest expense and BEP's upward trend also reflected here. Since the BEP and ROA trend is similar, that once again reveals, the approximately constant interest expense.

3.4.4 Return On Common Equity (ROE)

Return On Common Equity (ROE) = Net Income / Common Equity

Ratio	Year 2008	Year 2009	Year 2010
Return On Common Equity (ROE)	0.0757	0.0695	0.0927

Analysis: Although 9.27% return on equity invested by common shareholders is not that much satisfactory in terms of value of return, but still it is good that it is upward trending. In 2009, the value dropped slightly, but the company recovered that in 2010. This upward trending value will encourage shareholders to hold the share for a longer period with the hope to have higher return. It is the most important financial ratio, specially for shareholders.

3.4.5 Earning Per Share (EPS)

Earnings Per Share = Net Income / No. of Shares

Ratio	Year 2008	Year 2009	Year 2010
Earnings Per Share	2.1411	2.0514	2.6207

Analysis: Except 2009, the EPS is higher trending which definitely makes shareholders and other investors to be interested to invest more to the company. This reflects the result found from ROE.