Ratio analysis of modern cement essay

Business, Management



MODERN CEMENT Ratio Analysis Activity Analysis | ST Activity Ratios | 2002 | 2003 | 2004 | 2005 | 2006 | | Inventory Turnover Ratio | 0 | 1. 11 | 0. 097 | 0. 085 | 0. 696 | | Average No. Days Inventory In Stock | 0 | 328.

9 | 3742. 72 | 4301. 69 | 524. 56 | Interpretations: Short Term Activity ratios calculate the operational efficiency regarding the utilization of short term assets Inventory Turnover Ratio: The ratio tells about how many times Inventory turnover is made or complete in a given year. Higher the ratio is better that mean the inventory is turnover very quickly.

Inventory Turnover Ratio 1. 11 in 2003 indicates that company can sell total finished goods (inventory) 1. 11 times every year. Increase in this ratio indicates the efficiency in managing inventory, which is not present in this company as we can the declining rate over the past years. This also indicates that the reserve of inventory and inventory holding cost is high for this company. Inventor Turnover Period: The ratio tells about number of days inventory remains in the stock and lower the ratio and better it is. From the table we can see that the ratios are too high which also indicates Modern Cement is inefficient in managing its inventory.

| LT Activity Ratios | 2002 | 2003 | 2004 | 2005 | 2006 | | Total Asset Turnover Ratio | 0. 018 | 0. 007 | 0. 011 | 0. 006 | 0. 071 | | Fixed Asset Turnover Ratio | 0.

03 | 0. 008 | 0. 013 | 0. 007 | 0. 087 | Interpretations: Long Term Activity ratios calculate the operational efficiency regarding the utilization of long term investments. If the firm efficiently manages its assets, then it helps in generating more sales and revenue and required more assets to meet the more sales.

Higher the ratio is better means the firms is efficiently managed to generate its sales. Total Asset Turnover Ratio: This ratio shows how much sales are generated by using per unit of total asset. It measures the efficiency of total investment management. It also shows the integrated efficiency of production, marketing and financing department. From the table we can see that the ratios are too low and it was highest in Year 2006 which was . 071 means company generated Tk. 0. 71 of sales from Tk.

1 of total investment. Fixed Asset Turnover Ratio: It shows how much sales are generated by using per unit of fixed asset. It measures the efficiency of fixed asset management. Higher ratio is better. From the table we can see that the ratios are lower and it was best in Year 2006 and it was 0. 087 means the company generated Tk.

0. 087of sales by investing Tk. 1 in fixed assets. Liquidity Analysis | Liquidity Ratios | 2002 | 2003 | 2004 | 2005 | 2006 | | Current Ratio | 253. 867 | 0. 498 | 0. 443 | 0.

41 | 0. 01 | | Quick Ratio | 253. 867 | 0.

185 | 0. 152 | 0. 137 | 0. 134 | | Cash Ratio | 105. 951 | 0.

002 | 0. 0004 | 0. 003 | 0. 0002 | Interpretations: Liquidity means Current Assets is used for Short Term obligations. ST lenders and ST creditors are more concern about the liquidity analysis of an firm, because they want to know that whether a firm has ability to pay its short term obligation in-time or not. Current Ratio: The ratio talks about how many current assets are used to payout its short term obligation. From Year 2003 to Year 2006, Modern Cement had almost similar amount with a decreasing rate to pay its current liability by its current asset which is around 0. 5 Tk to pay its current liability against Tk. 1. The amount is low which indicates worse liquidity position. In year 2002 it was the best as it had Tk.

253 to pay ita Tk. 1liability as in that year their current liability was minimum. Quick Ratio: In the Quick Ratio, we exclude Inventories and Prepaid Expenses from Current Assets to measure better liquidity position of the firm, because Inventory is two steps away from Cash and Prepaid Expense is not indication of future cash inflow. From the above table we can identify that in 2003 the firm has 0. 185 taka of quick assets (cash, receivables and marketable securities) to pay its 1 taka current liability and later on it has decreased.

Again in Year 2002 it was exceptionally good as its liability was minimum. Cash Ratio: As the Receivable is include in Quick Ratio and to convert receivable into cash takes time, that's why to measure better liquidity position of the company Cash Ratio is best. As we have seen that, the Current and Quick Ratio of Modern Cement is very worst and if we keep our eyes on Cash Ratio then we easily understand that it indicates far worst position of Modern Cement. Long term Debt and Solvency Analysis | Debt & Solvency Ratios | 2002 | 2003 | 2004 | 2005 | 2006 | | Debt to Total Capital Ratio | 0. 002 | 0. 337 | 0. 336 | 0.

396 | 0. 425 | | Debt to Equity Ratio | 0. 002 | 0. 509 | 0. 578 | 0. 656 | 0. 4 | | Time Interest Earned |-3.

373 | | | |-1. 257 | | CFO to Debt |-5. 827 |-0. 334 |-0. 0002 |-0. 008 |-0. 026 | Debt to Total Capital Ratio: Debt to total capital ratio talks about the proportion of external claim over firm's total assets or total capital. Lower the ratio is better for company's shareholder, because it indicates that the shareholder of the firm have more claim over firm's total assets than the external claims.

From the table we can see that the ratio increased over the years means the company's dependence of external debtor is increasing day by day. Debt to Equity Ratio: The ratio talks about the claim back of equity holder after paying the debt's claim. Lower ratio is better, but not negative, that means the equity holders bear lower liability. From the table we can see that it has increased over the past 5 years which indicates that the company's position is worsening day by day. Time Interest Earned Ratio: Time Interest earned ratio often referred to as the interest coverage ratio measures the protection available to creditors. Higher ratio indicates the higher ability to pay the interest.

TIE ratio is present in Year 2002 and 2006 which shows the worse position of the company as in both of the year the ratios are negative. CFO to Debt Ratio: This ratio indicates whether the firm has the ability to pay the debt by the cash flow generated from core operations. The higher the ratio, the better for the firm it becomes.

But this ratio is negative through out the years. So we can say the firm has a poor performance in its core operations to generate cash to pay the debt. Profitability Analysis Profitability Ratios | 2002 | 2003 | 2004 | 2005 | 2006 | | Gross Margin |-0. 265 |-0.

78 |-0. 496 |-0. 556 |-0.

865 | | Operating Margin |-0. 265 |-0. 78 |-0. 496 |-0. 556 |-0. 865 | | Margin Before Interest and Tax |-0. 265 |-0.

78 |-0. 496 |-0. 556 |-0. 865 | | Profit Margin |-0. 65 |-0. 78 |-0. 496 |-0. 556 |-0.

865 | | | | | | | | Return on Asset (ROA) |-0. 0048 |-0. 0062 |-0.

0054 |-0. 0035 |-0. 06 | | ROTC |-0. 0046 |-0. 006 |-0.

0052 |-0. 0033 |-0. 057 | | Return on Equity (ROE) |-0. 0046 |-0. 007 |-0. 008 |-0. 05 |-0.

097 | Interpretations: Any Shareholders or Equity Investors main concern with the profitability analysis of the firm, because of following three reasons: 1. To earn profit, 2. To sustain profit, and 3. To increase profit. Profitability should be measured on Return on Sales (ROS) and Return on Assets (ROA). There are several ratios of Return on Sales are described below. Return on Sales (ROS) Gross Margin: The ratio talks about the relationship between Sales and Manufacturing Expenditure.

Higher Ratio indicates higher profitability of the company. From the table we can see that the Gross Margin is negative due to loss. Operating Margin: The ratio measures the profitability of firm from the operation its core business and its exclude the effect of Investment, Financing and Tax Position.

As Modern Cement faced loss all over the year, as a result their gross margin and operating margin is same. Margin before Interest & Tax Margin: After adjusting the Incidental Operation with Operating Margin, we get EBIT (Earning Before interest and Tax). Modern Cement has no any incidental operation, as a result it EBIT margin is equal to Operating margin. Profit Margin: After adjusting the Tax Expenses with the EBT, then we get Net Profit.

As Modern Cement earns Net loss form past few years, as a result its Profit margin and operating margin is same, that is shown in the table. Return on Assets (ROA) or Return on Investment(ROI) Return on Assets talks about the overall return for all the investors that company is earning by using Total Assets. Higher the ratio is better for investors of the company, which means the company earns more return. Modern Cement has very poor ROA as the company is facing loss all over the years. Return on EquityROE means the overall return is available to equity holders of the company. Modern Cement has very poor ROE due to its loss. Leverage Ratios | | 2002 | 2003 | 2004 | 2005 | 2006 | | Operating leverage effect | 1. 67 | 21. 97 | 0.

013 | 1. 001 | 0. 189 | | Financial leverage effect | 1 | 1 | 1 | 1 | 1 | 1 | Total leverage effect | 1. 67 | 21.

97 | 0. 013 | 1. 001 | 0. 189 | Operating Leverage Effect (OLE): OLE means percentage change in EBIT because of percentage change in sales.

If ratio is greater than 1 we can say that operating leverage is present. From the table we can see that in Year 2002 and 2003 there was OLE and 21. 97 which was in Year 2003was the best but from Year 2004 to 2006 there was no OLE. Financial Leverage Effect (FLE): FLE means percentage change in EPS because of percentage change in EBIT. Lower is better. From the table we can see that there was no FLE in past 5 years. Total Leverage Effect (TLE): TLE means percentage change in EPS because of percentage change in sales.

Higher is better. In year 2003 it was highest and lower in rest of the years which is due to the OLE. Earning Per Share | | 2002 | 2003 | 2004 | 2005 | 2006 | | Basic Earnings per Share |-0. 046 |-0. 075 |-0. 079 |-0.

053 |-0. 9 | EPS shows the overall performance of the company. EPS means the returns for each share. From the table we can see that the overall performance of the company is poor as the EPS is negative for all the years. [pic]