

Ratio analysis of financial statements essay sample



**ASSIGN
BUSTER**

The Company has been set up with the primary objective of producing and selling ordinary portland cement. The finest quality of cement is available for all types of customers whether for dams, canals, industrial structures, highways, commercial or residential needs using latest state of the art dry process cement manufacturing process.

A longtime leader in the cement manufacturing industry, Fauji Cement Company, headquartered in Islamabad, operates a cement plant at Jhang Bahtar, Tehsil Fateh Jang, District Attock in the province of Punjab. The Company has a strong and longstanding tradition of service, reliability, and quality that reaches back more than 11 years. Sponsored by Fauji Foundation, the Company was incorporated in Rawalpindi in 1992.

The cement plant operating in the Fauji Cement is one of the most efficient and best maintained in the Country and has an annual production capacity of 1. 165 million tons of cement. The quality portland cement produced at this plant is the best in the Country and is preferred in the construction of highways, bridges, commercial and industrial complexes, residential homes, and a myriad of other structures, fundamental to Pakistan's economic vitality and quality of life.

Liquidity Ratios:

Current Ratio

The current ratio shows company's financial strength that in order to pay debts that come due during the current year, how many dollars in assets are

likely to be converted to cash within one year. We can find the current ratio by dividing the total current assets by the total current liabilities.

1. Quick Ratio

The Quick Test Ratio/Acid Test or Liquidity Ratio is the most excessive and difficult test of a company's financial strength and liquidity. It shows the liquidity of a business.

Assets Management Ratios:

1. Total assets Turnover Ratio

Asset turnover is calculated to measure a company's efficiency in using its assets. It calculates the total sales for every rupee of assets a company owns. The higher the number, the better the company's efficiency is.

2. Inventory turnover ratio

Before investing in a company, it is better to make an informed decision about how much the inventory on the balance sheet is really worth.

3. Days Sales Outstanding

The DSO or receivable turnover is a great financial ratio to learn when you are analyzing a business or a stock because its better faster a company collects its accounts receivables. The sooner customers pay their bills the sooner a company can put the cash in the bank, pay down debt, or start making new products. There is also a smaller chance of losing money to delinquent accounts.

4. Fixed assets Turnover Ratio

The fixed-asset turnover ratio calculates a company's ability to generate net

sales from fixed-asset investments – specifically property, plant and equipment (PP&E) – net of depreciation. A higher fixed-asset turnover ratio shows that the company has been more effective in using the investment in fixed assets to generate revenues.

Debt Management Ratios:

1. Debt Ratio

Debt ratio calculates that how much percentage of a company's assets are financed by the debt. If the ratio is less than 0.5, most of the company's assets are financed through equity. If the ratio is greater than 0.5, most of the company's.

2. Times- interest-earned (TIE) ratio

Times Interest Earned or Interest Coverage is a great tool when measuring a company's ability to meet its debt obligations. When the interest coverage ratio is smaller than 1, the company is not generating enough cash from its operations EBIT to meet its interest obligations. The Company would then have to either use cash on hand to make up the difference or borrow funds.

Profitability Ratios:

1. Profit Margin on Sales

Profit margin on sales tells the profit per rupee of sales.

2. Basic Earning Power (BEP)

The basic earning power ratio (or BEP ratio) compares earnings apart from the influence of taxes or financial leverage, to the assets of the company.

3. Return on Total assets

Return on assets is a useful measure for comparing competing companies in the same industry. Return on assets gives an indication of the capital intensity of the company, which will depend on the industry; companies that require large initial investments will generally have lower return on assets.

4. Return on Common Equity

ROE measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners. It measures a firm's efficiency at generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities). ROE shows how well a company uses investment funds to generate earnings growth. Market Value Ratios:

1. Price/Earnings ratio

P/E ratio is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is used for valuation: a higher P/E ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower P/E ratio.

2. Price/Cash Flow Per share

P/C ratio is a ratio used to compare a company's market value to its cash flow. In theory, the lower a stock's price/cash flow ratio is, the better value that stock is.

3. Market/Book Ratio

Market-to-Book Ratio is the ratio of the current share price to the book value

<https://assignbuster.com/ratio-analysis-of-financial-statements-essay-sample/>

per share. It measures how much a company is worthy at present, in comparison with the amount of capital invested by current and past shareholders into it.

Attock cement

Company's profile:

Attock Cement Pakistan Limited (ACPL) is a public limited company, listed on the Karachi Stock Exchange since June 2002. Main business of the Company is Manufacturing and Sales of Cement. ACPL, is part of the Pharaon Group, which in addition to investment in Cement industry has diversified stakes in Pakistan mainly in the Oil and Gas Sector. The Attock Cement project was conceived and the company was incorporated in 1981, the plant finally commenced commercial production on June 1, 1988. The project is a Pak Saudi joint venture and involved initial capital outlay of around Rs 1.5 billion with foreign exchange component of around US \$ 45 million. This made it one of the largest enterprises in the private sector. Pharaon Commercial Investment Company Limited holds 84.06% of total paid up share capital whereas the general public holds a total of 15.94% shares. ACPL's Cement plant was designed by Uzinexportimport (UEI) of Romania, all equipments, and ancillaries and steel structures were supplied by UEI and Limestone crusher and packing plant was manufactured by O & K and Havor and Boecker of Germany. Thus it is with a sense of pride that Attock Cement claims pioneer status in bringing the Pre-calcination / Pre-heating dry process technology to Pakistan.

Bestway cement

Bestway Cement Limited is part of the Bestway Group of the United Kingdom. The Group has a well diversified portfolio incorporating within its folds cement manufacturing, global banking, wholesale cash & carry business, a string of retail outlets, real estate investment, ethnic food and beverage import and distribution and milling of rice. Recently the group has embarked upon a large power generation project in Pakistan thus further diversifying its operations and revenue base.

Bestway is U. K's second largest cash and carry operator in terms of turnover with group annual turnover in excess of US Dollars 3. 6 billion and profits in excess of US Dollars 135 million; the second largest cement producer in Pakistan and joint owner of Pakistan's third largest bank, United Bank Limited. Its rice milling facilities are one of the largest of its kind in the country. The group is the largest overseas Pakistani investor with investments in excess of US Dollars 1 billion and a global workforce of over 22, 000 people spread over four continents.

Dadabhoy Cement

Dadabhoy Cement Industries Limited (DCIL) went into commercial production in 1986. The production, however, was not adequate to meet the growing demand for cement. The management, therefore, decided to go for optimization and enhance the plant capacity from the initial 1, 500 tonnes per day (TPD) to 1, 800 TPD. Further optimization Plan of the Company is in process for which drawings and other technical know-how have been acquired from world renowned company for enhancement of capacity, initially up to 2, 800 metric tonnes per day in the first Phase, which will

further be enhanced to 4, 000 metric tonnes per day in the second Phase. Dadabhoy Cement went public in late 1991 and thus increased its capital from Rupees 300 to 600 million. DCIL is one of the pioneers in introducing slag cement in Pakistan. The contribution of Dadabhoy Cement is quite significant. This first indigenously designed and fabricated cement plant is fully functional and producing in excess of half a million tonnes of cement annually. DCIL is a prime example of the immense love and devotion the Dadabhoys have for the country and of their bold entrepreneurship.

M. H. Dadabhoy Group is also the Pioneer in introducing Coal technology for cement and other process industries. Being Pioneer in coal technology in cement Industry, DCIL is also playing their role in transferring technology to other similar ventures. Presently DCIL is running on 100% usage of coal. Management is seriously considering to use 100% local coal

Lucky Cement

Yunus Brothers Group is one of the largest export house of Pakistan that has grown up remarkably over the last 50 years. The YB Group is engaged in diversified textile manufacturing activities consisting of Spinning, Weaving, Processing, Finishing and Stitching. The Group also owns one of the largest cement manufacturing plant and the second largest yarn manufacturing capacity in the Country. Besides manufacturing, the Group is also engaged in International Trading of various commodities. The Group consists of the following Companies, with an annual turnover of over Rs. 27 Billion or US\$ 450 Million during year 2004~2005 out of which exports amounted to US\$ 300 Million. Maple Leaf Cement

Maple Leaf Cement is the third largest cement factory in Pakistan. It was set up in 1956 as a joint collaboration between the West Pakistan Industrial Development Corporation and the government of Canada. It is strategically located at Daudkhel (District Mianwali) in Northern Pakistan, which is an area rich in raw materials required for the production of cement. Kohinoor acquired the ownership and management of Maple Leaf Cement under the privatization policy of the government of Pakistan in 1992. Presently Kohinoor Textile Mills is the holding company for Maple Leaf cement.