

# A report on the financial management of rpc group. essay example

[Business](#), [Company](#)



RPC is a plastic manufacturing conglomerate domiciled in the United Kingdom. The origin of the group can be traced from the merger between five companies in the year 1991, followed by management buyouts of several related plastic manufacturing businesses within the region. The twenty years ending 2011 have been very significant for the group growth wise, which has seen the company make great strides in the growth of different facets of business defined by sales, profitability, as well as the market share of the products that are offered to the market. The company is headquartered in Northampton shire and currently headed by Ron Marsh. The company is listed in the London stock exchange from the year 1993 up to the present, operates in more than ten nations in the European markets as well as forming part of the companies featuring in the FTSE 250 companies index. This highlights the financial stardom the RPC group, as well as the sustainability of their operations in the market place.

The company operates in a highly competitive market, but has managed to sustain its competitive edge by ensuring prudence in the way it operates and wise usage of funds relating to investment. Some of the obvious challenges that the firm faces in its mission to be the market leader range from the cut throat competition from emerging firms with strong financial muscle, to economic meltdown in the European countries that has led to slow movement of manufactured goods in the market.

## 2.0 Short term trading: liquidity ratios

On this analysis, we are interested in knowing whether the business of RPC group will be in a position to clear all its short term dues in time, without affecting the business long-term ambitions. As part of cash management

process, certain obligations fall due at times when the business cannot avoid meeting the obligation immediately. Hence liquidity level of the business will guide us to knowing whether the company will be able to meet these obligations without sacrificing any long term growth plan (Lawrence, 2002).

## 2. 1 Current ratio.

Typically, current ratio is given by a comparison between the current assets and liabilities of the business at any given period of time, a sure way of telling whether all the available current assets can meet the liability threshold recommended by the industry for particular business.

### **Taking an analysis for different years running below is the result.**

For year 2011, the current ratio has fallen below 1.0, which is the recommended value at which a company can operate in the gravest circumstances. In this, it means that meeting short term obligations will be difficult since the current assets available are far below the liabilities to be offset. The only avenue left for the company is to use funds intended for long term growth of the company in paying this dues, thus injuring the long term goals of the firm (Robinson, 2009).

For 2012 the current ratio is on the rise but falls below the industry average of 1.20. It will thus be difficult for the company to meet its short term obligations when they fall due.

There has been many shortcomings of using current ratio for the purposes of determining the financial stability of a company in the short term. This is due to the fact that some elements of current ratio in the analysis do not fit in the category of assets that have realizable value immediately. As a way of

example, stock items fall in this category. This is because it will take some time to dispose stocks for the purposes of obtaining cash to offset bills, depending on market forces. As such, it will be a misconceived idea to propose that stock can be part of the assets lined to clear bills, hence leading to the adoption of acid test ratio (Robinson, 2009).

2. 2 Acid test ratio.

### **Acid test ratio is a more refined way of determining the liquidity of a company in the short term**

This ratio excludes stock in the calculation of the liquidity test, hence leaving the more liquid items for the analysis.

After sampling out the remaining stocks for the periods of the four years running, the following analysis has been brought forth.

Acid ratio 1. 6 1. 21 0. 94 1. 14

The brought forth calculations reflect the financial performance of the company in the short term. It is worth mentioning that the industry average for acid test ratio is 1. 00, since this gives the chances of paying out all short term liabilities possible at any given time. It is against this back ground that I conclude that RPC group has very impressive financial model, only that the fluctuations from year to year make the predictability difficult (Robinson, 2009).

The negligible value of the available stock at each year makes the variance between the current ratio to acid test ratio negligible, and of great interest is year 5. This is the only time when the acid test ratio falls below the recommended 1. 00, making it slightly difficult for the company to meet its

short term obligations when they fall due (Robinson, 2009).

### 3. 0 Profitability ratio

#### **Comparison of returns to sales:**

For the years 2008 and 2009, RPC group made profits from the operations it undertakes, and in 2008, the company recorded returns of 3. 5% and 0. 9% in 2009 . In year running from 2009 to 2012, as indicate in the excel sheet, RPC did not register any net income. The situation keeps the company struggling in the market place either because of high cost of sales, which has negative impact on the profit margins as well as the making the company struggle excessively in the market place during the pursuit for profits (Robinson, 2011).

This is a common phenomenon in cases whereby a company has very many competitors whose products have been identified by the customers as superior. As a result, the company will struggle in the bid to make its products match those of competitors. It has always been a risky gamble. It will be harsh to conclude that getting returns out of the bid to up the quality of the product to meet the level of competitors will not pay dividends at last, but it takes some time, probably longer than expected (Alvarez, 2011).

This probably explains why RPC group did not record positive return for the period from 2010 to 2012 . stretching forward to years to come, the trend may change, enabling the company to make profits and cover the losses made for the duration of loss making (Albatross, 2009).

### 4. 0 Efficiency ratios

This highlights how the company has been using the assets it has at its

disposal to generate revenues for the company. It has been a business goal to ensure that all the available assets in the business are efficiently utilized to keep incomes flowing to the firm, for the wealth maximization approach to shareholders to remain afloat (Alvarez , 2011).

4. 1 The utilization of the assets available to RPC group can be summarized in the table below.

This shows that the assets of RPC group have been efficiently utilized to generate sales for the company. The maximum utilization of assets in any business enterprise should be 100%, a notion based on the several assumptions:

- That the asset base of the company is can be broadened any time by different business arrangements like leasing to cater for an expected demand that has caught the company by surprise (Robinson, 2009).
- The company has planned for all the necessary costs that will be brought in to force by making sure all the demand levels (both expected and unexpected) are catered for.

On these grounds, it will be fair to conclude that RPC group has made all the necessary arrangements to keep the assets of the company utilized to maximum, which can be associated with the urge to keep customers alive. It is thus fair to say that the company has surpassed the expected industry utilization level of 100% (Alvarez. 2011)

4. 2 The final analysis of efficiency will be a detailed comparison of the net income to the asset base of the company.

- Machines with high maintenance costs being used in the production of the products RPC produces.

- Production method that calls for high usage of expertise personnel in the process of facilitating smooth processing
- Adoption of labor intensive methods that call for addition of employees in the production. The final impact of this will be absorption of high costs that will eventually eat into the company's profit, making perennial losses unavoidable. Hence on this, the company should look for a more sustainable production method that will not siphon all the profits generated from the operations (Robinson, 2009).

#### 4. 3 Debt collection days.

This has been enabled by the fact that the sales debtors become aware of the fact that timely payment of dues will strengthen the relations between RPC and the respective parties, motivating them to make payments in time. This in turn increases the liquidity of the enterprise thus enabling RPC to make the appropriate investment decisions that suit the business (Alvarez, 2011).

Negotiation for better credit terms has also provided a window for timely payments, making RPC group benefit from the discounts that are advanced. Suppliers will provide extended duration for clearing balances after advancing materials on credit terms. This translates into positive growth of RPC group in the long run (Robinson 2009).

#### 5. 0 Return on equity.

This attributes to the portion of profits that will be enjoyed by the ordinary shareholders of the company. As a matter of law, shareholders remain the last beneficiaries of the company's earnings after every other stake holder has been provided for as per agreement in the memorandum of association.

Since the company has been making perennial losses all through, paying dividends is not possible for now (Robinson, 2009).

#### 5. Conclusion about my findings on the firm

As a way of finalising my findings on RPC group, the firm has been on the market for nearly fifteen years. Through this time the company grew to one of the biggest players in its industry sector. It is fair to say that the company has been sailing through profitability storms for quite some time as reflected in the financial analysis.. The recession that has swept across all the trading niches of European continent has had far reaching negative effects on the market RPC group operates on, causing thousands of other firms going bankrupt and reducing the demand for the products in every sector of industry. Moreover the market index has surged significantly, undervaluing the share prices. Those aspects have affected badly the sector of industry of RPC group, because people in harsh times, at first, are given up going to rigid plastic moulding companies, buying luxury goods etc. This is one of the reasons why the turnover went down, consequently in the last two years. Another reason for smaller sales RPC group is very aggressive competition from its main competitor, which has been increasing the share of market gradually for the last 5 years. That is a very big threat for the firm is if the negative trend will not change, it are about to lose the leading position in the market (Fridson, 2011).

The main risks arising from the financial instruments that have been adopted by RPC group, according to the annual reports, are interest rate risk and liquidity risk. The managers have exposure to liquidity risk, being the risk that payments cannot be made when they fall due. The company also



managed to gradually reduce the long term debt, so its profit is not decreased by paying huge interest on the loan (Riley 2009).

Looking at the company from a shareholders point of view, there are some bad and good prospects. The company has not been in a position to pay dividends for the five years but it is quite unlikely to sustain this trend. I'm encouraged by the structures that have been put in place by the management of the company and soon profits will be realized. This is because of the chance that the market will come out of the crisis, giving a chance for growth of the share price of RPC which seems to be undervalued all along (Albatross, 2011).

6. 0 Further recommendations.

### **For the purpose of concluding, will recommend the following additional steps for the company**

- Carrying out extensive research on cost reduction measures with regard to cutting factory costs.
- Weighing on diversifying its production.

### **References**

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