An evaluation of financial performance of j sainsbury plc.

Business, Management

The main aim of Financial Management is to provide funds for the activities of corporation. Effective process of financial management leads to the maximization of organization's wealth and its stock value while maintaining balance between risk and profitability. Firms usually acquire funds on long term basis in shape of equities and credit. The combination of credit and equities comprises the capital structure of a company. Banks also provide the business organizations through provision of credit facilities.

Business organizations acquire assets in anticipation of profit through increased value of asset. Firms can undertake profitable investment by determining the right amount, time and project to invest. The investment decisions of a business organization must be aligned with the objectives of the company. The constraints facing the company must also be considered with other variables effecting the investment decisions such as timeline risk aversion and tax structure. It is also important to choose appropriate hedging strategy. Measuring the portfolio performance also improves the worth of investment.

With the changingenvironmentof business all over the world the need for the companies to undertake effective financial management has also increased. Effective and right decision regarding the sources offinanceand capital structure needs to be adopted by most of the companies in order to increase their market share and acquiring other motives. The significance of investment appraisal cannot be denied. Usually is important for the organizations in a setting where the related executives need to immediately undertake the decision regarding different investment projects.

The study is mainly aimed at the analysis of the just discussed phenomenon of sources of finance, capital structure and investment appraisal and its pros and cons for J Sainsbury plc. The study will also unleash the effects of cultural differences on the process of decentralization in the organization at international level. Financial management is an important tool, which ekes a business organization in the process of competing in today's volatile business environment at International level.

The paper undertakes the evaluation of financial performance of J Sainsbury Plc. It also discusses the significance of investment appraisal in undertaking the decision regarding the business ventures. The impact of alteration in capital structure on shareholders wealth and company’s performance has also been discussed. Last but not least the paper also elaborate how the wrong choice or unavailability of sources of finance undermines the business of an organization. Methodology followed: There is not very much research undertaken in the field.

In this research we will analyze the three years annual reports of the company by the application of the concepts mentioned above. Findings: There is a big room for improvement, which is required for the company in order to ameliorate their business conditions. Limitation of the study: - There is a vast area related to the topic addressed, which needs to be researched and analyzed. The comparative study of investment appraisal, sources of finance, and capital structure of different companies from different countries could also be undertaken.

Practical implications: The study is a fair effort to help the individuals and the professionals attached to the field to understand the benefits attached to the concepts of investment appraisal, sources of finance, and capital structure. Value of the research: In this volatile era of increasing quality demands from customers and fierce competition the study highlights the importance of Financial Management in effectively addressing these challenges. Observation:

In today's globalize world where the firms have to face challenges of availability limited resources available and the increasing demand for improved performance, business organizations can only respond to these challenges by becoming more volatile, more target oriented, and more responsive. These challenges have increased the need ofleadershipwith the endurance to undertake timely and effective sometimes crucial financial decisions. The challenges therefore for the organizations alike are to help build effective, conducive, and visionary financial management mechanism.

Financial Management has a crucial role to play for business managers throughout the organization not only today but also in the next generation of managers that will be running the different corporate units in the future. The mechanism alone wouldn't solve the case. The key is to use that mechanism at right time and in right direction. J Siansbury is no doubt a very sound organization with a high potential. It won't be unwise to say that J Sainsbury can dominate the supermarkets industry in the near future.

But for that the management of the company will have to take some important decisions for which the recommendations are presented in the last section of the paper. Definition of Problem: To understand the need and measure the importance of sources of finance, capital structure and undertaking investment appraisal through out the whole organization at international level in order to have smooth and responsive business operations in presence of other variables. Company Profile:

J Sainsbury plc is the third largest chain of supermarkets in the United Kingdom. It’s the longest standingfoodretailing chain, which opened its first store in 1869. Experiencing expansion at high pace the company now operates 504 supermarkets and 319 convenience stores. Provision of high quality grocery is an accentuation of the Super market chain. In the rankings published by Taylor Nelson Sofres in January 2008, Sainsbury's market share was estimated at 16. 4% making it the third largest after Tesco having a share of 31.

5% and ASDA with 16. 7%. In the annual report of 2008 the company reported its share to over 14. 8% and claimed no. 2 position in the food retailing industry. With the UK grocery retailing market being valued at ? 123. 5 billion in 2005/06 it is an anticipation that growth will be at an average annual increase of 2. 8 percent increasing the value of market to ? 141. 5 billion by 2011. Comparing from the year 2007 Sainsbury experienced a mixed trend of growth in all the regions it operates.

The imposition of regulations and planning regimes on store development will adversely effect the growth of Sainsbury but effective strategic planning supported with competent financial management will help the company in achieving its aims. As we know financial management is concerned with the acquisition, financing and management of assets in order to achieve the goal of profit maximization. The decision function of financial management can be divided in to three major categories: investment, financing and asset management. Due toglobalizationthe complexities in the business world have been increased.

The finance managers of organizations like J Sainsbury at international level are faced with the challenges of increased corporate competition, technological change, volatile inflation and interest rates all over the world, difference in economic and market structures, lack of resources and difference in ethical standards. Below we will analyze how different financial phenomenon such as investment appraisal, source of capital, and capital structure help organizations like J Sainsbury in effectively undertaking its business financial decisions at right time and in right manner.

Capital Structure: Looking at the capital structure of the Sainsbury has the following sources of funds that can be used. There are two forms of financing and they include; debt capital and share capital Debt Capital These are two forms of debt capital that can be used by Sainsbury to finance their operations, which include short term and long term. Each of this that can be used has advantages and disadvantages. This will also depend on the type of debt capital, in normal practice long debt capital is considered to be a source long-term capital.

But to some companies they may finance long-term assets using short term and medium term debt depending on the nature of their business. For the case of J Sainsbury they can used only long-term term debt for the proposed project as their financial position can not support short term debt for a long term project. However they can use short term financing for current assets this will help them improve profitability. (a) Long-term debt The importance of long term debt to the Sainsbury capital structure can be seen through the effects on financial leverage, the cost of capital, and capital structure.

The presence of debt in Sainsbury's capital structure will provide financial leverage, which will magnify the effects of increased operating profits, thus the shareholders returns. Since debt is normally the cheapest form of long-term financing, due to the tax deductibility of interest, it is a quite desirable component of the firms' capital structure. The presence of long term debt in Sainsbury's capital structure also will lower the firms cost of capital, thereby permitting the firm to invest in the proposed project since it is one of the sources that is not exploited as per the current capital structure

Long term debt financing can be obtained in two ways. One way is to borrow themoneydirectly. These term loans with varying requirements are available from a number of major financial institutions. A second method of raising long-term debt can sell small parts of the total debt financing to various purchasers. Preference share: Is a form of financing whereby shareholders are paid a fixed rate of dividend after creditors but before ordinary shareholders. This can be cumulative preference shares where shareholders are paid a fixed amount of dividends and arrears accumulate.

Non-cumulative where they receive a fixed rate of dividend but arrears does not accumulate. Sainsbury has not exploited this form of capital therefore it should use it as part of the financing. The advantages and disadvantages of this source include; Advantages (i) Cheap – because is less risky, debenture holders can expect a lower rate of return. (ii) Cost is limited to the stipulated interest repayment. (iii)There is no dilution of control where debt is offered since no voting rights. Disadvantages (i) Interest is a compulsory default will mean selling the company securities or the company will go under receivership.

(ii) It is limited since the shareholders are concerned that a geared company can not pay its interest and still pay its dividend and raise the rate of return that they require from the company to compensate for this risk. (iii) Provision must be made for the repayment of debt with fixed maturity rate. (iv) If the general interest rates fall, fixed rate interest payments may prove to be a burden. (b) Short and Medium Term Financing Short -term is a form of financing whose period of repayment is up to one year. Medium – term is a form of financing from one year to seven years.

This form of financing is best when the finance raised is to meet a specific current requirement, which is not expected to continue indefinitely. A bank loan is obtained when the company is trying to avoid circumstances under which they use long-term debt for financing her operations. Bank loans also provide funds to pay off immediate and urgent expenses. In this case the company obtains a bank loan to enable sort out necessary expense. Bank loans can be long-term or short term and this case there is no bank loan in the Sainsbury capital structure. This has the following advantages and disadvantages;

Advantages (i) They are risky since they can be paid on demand or within the stated period and normally the duration is short whereas others can be terminated any period depending on the financial position of the company for example bank overdrafts and loans. (ii) During winding up of the company, they are given last priority since they are not secured. (iii) They have no voting rights in the company's general control. (iv) Flexibility – they can be sued as required for instance bank overdrafts can be sued so long as the company does not exceed the required limit.

In addition, credit period can be extended depending on the goods or services supplied. (v) Liable – any company can easily access this facility so long as it meets the requirements. (vi) Not expensive – interest rates are usually above the base rate and are tax deductible. Disadvantages (i) Risky since they are legally repayable on demand or within a certain stated period depending on the financial position of the company. (ii) Security is usually required by way of fixed or floating charges on assets or sometimes in private companies by personal guarantees from owners. (iii) Interest costs vary with bank base rates.

The effect of debt capital on cost of equity According to Modigliani-Miller the expected present value of a firm's future operating income is independent of the leverage ratio of debt to firm value. Using the therefore, the use of debt capital brings the cost of overall cost capital to come down to the level that is considered optimal. This is because debt capital introduces to interest saving thus increasing the retained earnings for the fir. This will eventually translate to increase in the share capital of firm providing funds to be utilized within when financing any capital investment project. The cost of capital