

Ratio analysis of mundra port and sez essay



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INTRODUCTION TO PROJECT Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statements and statements. Financial statements analysis is an attempt to determine the significance and meaning of the financial statement data so that forecast may be made of the future earnings, ability to pay interest, profitability of a sound policy. The charts were used accordingly to support the analysis. Need of the study:

The financial statements are mirror which reflects the financial position and strengths or weakness of the concern. The analyses of financial statements are useful to: * Management, * Investors, * Creditors, * Bankers, * Shareholders, * Government. OBJECTIVES OF THE PROJECT * To do the analysis of financial condition of Mundra Port Special Economic Zone * To study the overall financial performance of the firm. * To find out the financial position of the company from stakeholders point of view * To analyze the financial statements to find out the firm's financial position

Limitations of the study: * No primary data is used for the study. * Figures for the analysis are taken from the annual reports. * The study covers the period of 3 years 2009-2011 * Here mainly the task of verification has been carried out hence it is quite difficult to get the time of employees for project. INDIAN PORT INDUSTRY Ports are an important form of infrastructure in Indian economy. They play a vital role in facilitating international trade and commerce by providing an interface between the ocean transport and land-based transport.

India has an extensive coastline of about 7517 km spreading on the Western and Eastern shelves of the mainland as well as along the Islands. It has a well-established port infrastructure covering 12 major ports and 200 minor/intermediate ports (non-major ports), spreading across 9 coastal States. These major ports come under the purview of the Central Government, while non-major ports (minor/ intermediate ports) come under the jurisdiction of the respective State Governments.

In India, the concerned authority is the Department of Shipping, in the Ministry of Shipping, Road Transport and Highways, which has been entrusted with the responsibility of formulating and implementing policies and programmes on port sector. The Department has formulated the ' National Maritime Development Programme (NMDP)' which aims to create world-class infrastructure in ports. Total investment envisaged in the programme is Rs. 1, 00, 339 crores, out of which Rs. 55, 804 crores is for major ports.

These include berth development, deepening of channels, port connectivity projects, upgradation/ modernisation of cargo handling equipment and other support services. A major portion of the investment is expected to come from the private sector, mainly in commercially viable projects like construction of berths and operation of berths and terminals. The 12 major ports serve as the gateways to India's international trade by sea, handling over 90% of foreign trade. They are spread equally on the east coast and west coast of India. Kolkata port (including Dock complex at Haldia); * Paradip port; * Visakhapatnam port; * Chennai port; * Ennore port; * Tuticorin port are on the east coast; * Cochin port; * New Mangalore port; * Mormugao

port; * Jawaharlal Nehru port; * Mumbai port; * Kandla port is on the west coast. Chart-1 All the major ports are administered by the ' Port Trusts' governed by the provisions of Major Port Trust Act, 1963 which are autonomous bodies, except the newly ' Ennore Port' which is run by ' Ennore Port Limited' (registered under the Companies Act, 1956) S.

No:| State| Number of ports| 1. | Gujarat| 40| 2. | Maharashtra| 53| 3. | Goa| 5| 4. | Daman and Diu| 2| 5. | Karnataka| 10| 6. | Kerala| 13| 7. | Lakshadweep Island| 10| 8. | Tamilnadu| 15| 9. | Pondicherry| 1| 10. | Andhra Pradesh| 12| 11. | Orissa| 2| 12. | West Bengal| 1| 13. | Andaman and Nicobar Island| 23| Table-1 In order to improve efficiency, productivity and quality of services as well as to bring in competitiveness in port services, the port sector has been thrown open to private sector participation.

Such private investments are mainly on the Build, Operate and Transfer (BOT) basis and include various areas of port functioning, such as leasing out existing assets of the port, construction/ creation of additional assets, construction of cargo handling berths, container terminals and warehousing facilities, installation of cargo handling equipments, construction of dry docks and ship-repair facilities, leasing of floating crafts, pilot age and captive facilities for port based industries, etc. Foreign direct investment (FDI) up to 100 per cent is permitted for construction and maintenance of ports and harbours.

Joint venture formations between a major port and a foreign port, between major port and minor port(s) without tender, as well as between major port and company(ies) following tender route are permitted by the Government.

The measure is aimed at facilitating port trusts to attract new technology, introduce better managerial process, expedite implementation of schemes, foster strategic alliance with minor ports for creation of optimal port infrastructure and enhance confidence of private sector in funding ports.

So far, 15 private sector projects involving an investment of Rs. 4242 crores have become operational. While, one project, that is, ICTT at Cochin is partly operational. Five projects are under implementation and 17 projects are in the pipeline. Thus, Indian ports are indispensable in the development of country's maritime trade and economy, owing to India's current share in global merchandise trade at around 0.80%. They are not only considered as trade gateways, but also integral components of the global logistics and transportation chain

COMPANY PROFILE

Mundra Port and Special Economic Zone Limited (MPSEZ), India's largest private port and special economic zone, port project was initiated in 1988 by the Adani Group as a logistics base for their international trade operations when the sector was opened for private sector. The company commenced commercial operations in October 2001. Mundra Special Economic Zone Limited (MSEZ) was incorporated in November 2003, to set up an SEZ at Mundra. MSEZ was merged with GAPL in April 2006. The company was renamed as Mundra Port and Special Economic Zone Limited, to reflect the nature of business.

The Mundra port is one of the leading non-major private sector ports in India based on volume of cargo handle. Located in the Kutch district of Gujarat, the company is engaged in providing port services for bulk cargo, container

cargo, crude oil cargo, and value? added port services including railway services. It has exclusive right to develop and operate Mundra port and related facilities until February 2031. Port is strategically located with respect to the northern and western hinterland, to which it is well? connected by both railways and roadways. Export business from Africa, Middle Eastern and Western countries as well as Northern India which represents 70% of total container traffic handled by all ports in India. It has a privately developed 57 km rail line which is connected to the nearest railhead at Adipur. The Port has its own 1900 meters aerodrome equipped with latest navigational instruments for landing of private executive jets. The Adani Group has many distinctions to its merit: * Operator of the largest private port in India * Developer of the largest multiproduct SEZ in India * Owns the largest edible oil refining capacity in India * One of the largest trading houses in India Largest Integrated Coal Management Firm in India * Promoter of India's first supercritical technology based power plant * Operator of the world's largest automated import Coal Terminal having 60 MnT capacities

BUSINESS MODEL Chart-2 VALUES Since inception, three values have driven all the activities of the Adani Group. These values are central to our operations worldwide and will continue to be at the core of all our businesses. * Trust - We will deliver on all our promises - our word is our bond. * Courage - We will support our decisions and actions with conviction. Innovation - We will think laterally and never fight shy of embracing big ideas.

VISION AND MISSION Vision The Adani Group is engaged in a continuous endeavor to maximize the realization of potential in its employees and market opportunities by synergizing the multiple ventures of the Group; thus creating an optimum business model that benefits both,

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stakeholders and society. Mission To assimilate knowledge, develop capabilities and manage collective enterprise to profitably tap global business opportunities for the maximal benefit of everyone associated with Adani. LOGO

Our corporate logo, symbolizes our business philosophy. The pyramid at the base symbolizes harmony with and respect for elements that constitute cosmic energy. The waves emerging from the base, rising upwards and reaching outward denote our numerous activities and businesses; distinct and independent, each one unique in itself. They converge at the apex into a common goal – of growth and prosperity. The ocean blue base symbolizes passion to fathom the depths of knowledge. It implies steadiness, wisdom, conviction and truth. The sky blue waves connote reaching out to infinity.

They characterize our aspiration of growth as unlimited as the boundless sky
Location: Mundra Port is located in the north Gulf of Kutch at a distance of 73 KMs from Kandla and 350 KM from Ahmadabad, the commercial capital of Gujarat. Due to its location advantage, the Port serves as a “ Natural Gateway” to the northern and western hinterland of India. It is well connected by rail, road, air and pipelines. MANAGEMENT DETAILS Mr. Gautam S. Adani: is the founder Chairman of the Adani Group has been associated with MPSEZ since inception as a promoter director.

Presently he is appointed as CMD and CEO of the company. Under his leadership, Adani Group has emerged as a diversified conglomerate with interests in international trading, infrastructure development, power generation and distribution, development of special economic zones, gas

distribution, oil and gas exploration and production, coal mining and shipping. He has been instrumental in the diversification of the Adani Group into the port and logistics sector. Mr. Rajesh S. Adani: a non? executive director of MPSEZ has been associated with Adani Enterprises Limited since its inception in 1988.

At present he is the Managing Director of Adani Enterprises Ltd. He brings his vast experience in a variety of management functions ranging from Finance, Marketing and business development, Legal aspects of business and organization building for the development of the MPSEZ. He has a Bachelor of Commerce (B. Com) degree from the Gujarat University. Mr. Rajeeva Sinha: is a Whole? time Director of MPSEZ. He served as an officer in the Indian Administrative Services for close to three decades and brings in? depth knowledge of the shipping and port sector which he served for about 15 years in various capacities.

He was the Deputy Chairman of Mumbai Port Trust from September 1997 to August 2003. He was the Managing Director of Gujarat Pipavav Port Limited from Oct 2005 to June 2007. Dr. Malay Mahadevia: is a Whole Time Director (WTD) of MPSEZL with effect from 20th May, 2009. Working both as a practicing dentist and infrastructure developer has resulted in cross fertilization of ideas and practices resulting in continuous improvement, both as a human being and as a professional. He joined Corporate Sector in 1992 with explicit mandate to assess viability of building a captive berth / Jetty for exports.

Mr. Arun Duggal: an independent director of MPSEZ is an experienced international banker advising corporations on Financial Strategy, M&A and Capital Raising areas. He has been an International Advisor to a number of Corporations, major Financial Institutions and Private Equity firms Business Profiles Our Businesses: Coal: Adani is the largest importer and supplier of coal in India, enjoys coal purchase rights in Indonesia and owns coal mine in Australia. Adani supplies nearly 30 million tonnes of coal in India; it expects to manage 200 million tonnes of coal by 2020.

Power: Adani is implementing 18, 500 MW of power generation projects at seven locations in India with the objective of raising this to 20, 000 MW by 2020. It is also investing in cross country power transmission lines to evacuate power from our generation facilities. The energy business basket of Adani also includes the supply of Compressed Natural Gas to automobiles and piped natural gas to household users. Adani also entered into oil and gas exploration and production with development and production sharing rights in assets in India, Thailand and Egypt.

Infrastructure: Adani has been engaged in the creation of a port and special economic zone, logistics management (shipping to container train movement), storage and movement (food grain and orchard products) as well as realty development. Adani established India's largest private sector port and Special Economic Zone at Mundra (Gujarat) and is engaged in developing ports/terminals at Dahej, Hazira, Mormugao and Visakhapatnam in India and Abbot Point in Australia. MILESTONE 1993 Became a public limited company & a superstar trading house trading house 1994 IPO.... 25 times over subscribed 1998

Mundra Port took birth & AEL commenced coal trading 2001 Agro business started JV with Wilmar of Singapore 2006 Started mining operations at Indonesia 2007 Mundra Port went public...IPO over subscribe 21 times & raises USD 0. 36 Bn 2009 Adani Power Ltd went public...IPO over sub. 21 times & raises USD 0. 6 Bn; 1st unit of 330 MW operational 2010 Australia: Acquired Link energy coal mine (largest by an Indian Co. in Australia) Indonesia: Coal purchase rights for transporting 35-60 MMTPA & invested USD 1. 65 Bn Adani was founded as a trading house 1988 Chart-3

CONNECTIVITY Rail

Mundra Port is well connected to the Indian railway network. The port has 7 railway sidings and two dedicated diesel locomotives which can handle double stack container trains. A 64 km private railway line has been developed which connects the port with the national network at Adipur. Adipur falls on the broad gauge from Mumbai to Bhuj. Adani also has equity stakes in the Kutch Rail Company Ltd. (KRCL), a project by the Indian railways to shorten the distance between the northern hinterland (including Delhi and commercially important cities like Ludhiana) and Mundra Port by providing a broad gauge connection between Palampur and Adipur Road

Mundra Port is well connected to the Indian railway network. • The port has 7 railway sidings and two dedicated diesel locomotives • It can handle double stack container trains • A 64 km private railway line has been developed which connects the port with the national network at Adipur. Adipur falls on the broad gauge from Mumbai to Bhuj. Adani also has equity stakes in the Kutch Rail Company Ltd. (KRCL), a project by the Indian railways to shorten the distance between the northern hinterland (including Delhi and

commercially important cities like Ludhiana) and Mundra Port by providing a broad gauge connection between Palampur and Adipur Air

The nearest commercial airports to Mundra Port are at Bhuj (65 km) and Kandla (60 km). Mundra Port itself has a private operational airstrip that is suitable for landing mid-size jets. The aerodrome can be extended for commercial operations as land is available with the Adani group adjoining the airstrip Pipeline Because of the distance advantage over large ports like the ones at Mumbai, Mundra is a port of choice for crude and other liquid cargo bound for the northern hinterland including the refineries of Punjab.

Pipelines have been laid to Bhatinda. Chart-4 Primary Products Handled:

Coal| * Fertilizers| * Agri products| * Minerals| * Containers Liquid| *

Automobiles Crude Oil| * Vegetable oil| | Port Services: * Pilotage & towage| *

Stevedoring| * Storage-dry/liquid commodities| * Rail yard operations| *

Customs house operations| * Container operations| * Bunkering| * Bagging|

Main Customers: * Hindustan Unilever Ltd| * Maruti Suzuki Ltd. | * Nirma| *

Essar| * NYK Line| * Thermax Ltd. | * Welspun| * Jindal Saw Ltd| * IFFCO| *

Sanghi Industries Ltd| * MAN Industries| * IPL| * Saurashtra Fuels| * Ashapura|

ODFJELL| * Hoegh Autoliners| * MSC| * Adani Enterprises Ltd| * Adani Power

Ltd| | Competitors: * Kandla Port Trust| * Pipavav Port| * Mumbai Port Trust| *

JNPT and other minor ports of Gujarat Maritime Board (GMB) carrying out |

FUTURE PLANS * West basin: The West Basin has being designed as to

Import bulk handling terminal with the capacity to handle capsized vessels. *

South basin: The South Basin has designed to handle container and

automobile cargo. * North basin: The North Basin is primarily looked into hub

for coastal shipping. * East basin:

East Basin will be developed as an engineering hub as it requires more water front & less draught. * Mini shipyard: Mundra port has first of its kind a Mini Shipyard using balloon technology. This has been designed and in operation at Mundra primarily to cater to tugs, dredgers and Offshore Supply boats up to 100 meters in length. * Other developments: * Pure Car carrier/ Pure Car Truck carrier (PCC / PCTC) berth with appropriate car parking space. * Addition of two more crossing stations along the 64 KM privately developed railway line to increase the rakes handling capacity from 32 to 40 rakes a day.

Double lanning of the 64 KM railway line in phased manner. * Construction of dedicated LNG berth. RESEARCH METHODOLOGY Research is the systematic and objective identification, collection, analysis, dissemination and use of information for the purpose of improving decision making related to the identification and solution of problems and opportunities. TYPES OF RESEARCH There are three types of research: 1. Exploratory Research 2. Descriptive Research 3. Causal Research. These research methods can be quantitative or qualitative. Exploratory research design is used.

This is flexible and unstructured, used as a building block for more research, done on a small non-representative sample. Various tools have been used in this project are secondary data, focus groups etc. Secondary sources: * Annual report of MPSEZ * Files and folders provided by managers * Various publications on MPSEZ * Websites FINANCIAL RATIOS A tool used by individuals to conduct a quantitative analysis of information in a company's financial statements. Ratios are calculated from current year numbers and

are then compared to previous years, other companies, the industry, or even the economy to judge the performance of the company.

Ratio analysis is predominately used by proponents of fundamental analysis. A financial ratio (or accounting ratio) is a relative magnitude of two selected numerical values taken from an enterprise's financial statements. Often used in accounting, there are many standard ratios used to try to evaluate the overall financial condition of a corporation or other organization. Financial ratios may be used by managers within a firm, by current and potential shareholders (owners) of a firm, and by a firm's creditors. Security analysts use financial ratios to compare the strengths and weaknesses in various companies.

If shares in a company are traded in a financial market, the market price of the shares is used in certain financial ratios. Ratios can be expressed as a decimal value, such as 0.10, or given as an equivalent percent value, such as 10%. Some ratios are usually quoted as percentages, especially ratios that are usually or always less than 1, such as earnings yield, while others are usually quoted as decimal numbers, especially ratios that are usually more than 1, such as P/E ratio; these latter are also called multiples.

Given any ratio, one can take its reciprocal; if the ratio was above 1, the reciprocal will be below 1, and conversely. The reciprocal expresses the same information, but may be more understandable: for instance, the earnings yield can be compared with bond yields, while the P/E ratio cannot be: for example, a P/E ratio of 20 corresponds to an earnings yield of 5%.

SIGNIFICANCE OR IMPORTANCE OF RATIO ANALYSIS * It helps in evaluating

the firms' performance With the help of ratio analysis conclusion can be drawn regarding several aspects such as financial health, profitability and operational efficiency of the undertaking.

Ratio points out the operating efficiency of the firm i. e. whether the management has utilized the firm's assets correctly, to increase the investor's wealth. It ensures a fair return to its owners and secures optimum utilization of firms assets * It helps in inter-firm comparison Ratio analysis helps in inter-firm comparison by providing necessary data. An inter firm comparison indicates relative position. It provides the relevant data for the comparison of the performance of different departments.

If comparison shows a variance, the possible reasons of variations may be identified and if results are negative, the action may be initiated immediately to bring them in line. * It simplifies financial statement The information given in the basic financial statements serves no useful Purpose unless it s interrupted and analyzed in some comparable terms. The ratio analysis is one of the tools in the hands of those who want to know something more from the financial statements in the simplified manner. It helps in determining the financial position of the concern Ratio analysis facilitates the management to know whether the firms financial position is improving or deteriorating or is constant over the years by setting a trend with the help of ratios The analysis with the help of ratio analysis can know the direction of the trend of strategic ratio may help the management in the task of planning, forecasting and controlling. * It is helpful in budgeting and forecasting Accounting ratios provide a reliable data, which can be compared, studied and analyzed.

These ratios provide sound footing for future prospectus. The ratios can also serve as a basis for preparing budgeting future line of action. * Liquidity position With help of ratio analysis conclusions can be drawn regarding the Liquidity position of a firm. The liquidity position of a firm would be satisfactory if it is able to meet its current obligation when they become due. The ability to met short term liabilities is reflected in the liquidity ratio of a firm. * Long term solvency

Ratio analysis is equally for assessing the long term financial ability of the Firm. The long term solvency s measured by the leverage or capital structure and profitability ratio which shows the earning power and operating efficiency, Solvency ratio shows relationship between total liability and total assets. * Operating efficiency Yet another dimension of usefulness or ratio analysis, relevant from the View point of management is that it throws light on the degree efficiency in the various activity ratios measures this kind of operational efficiency.

NEED OF STUDY Ratio Analysis is the basic tool of financial analysis and financial analysis itself is an important part of any business planning process as SWOT (Strengths, Weaknesses, Opportunities and Threats), being the basic tool of the strategic analysis plays a vital role in a business planning process and no SWOT analysis would be complete without an analysis of company's financial position. In this way Ratio Analysis is very important part of whole business strategic planning. Ratio analysis does two things, immediately.

The first thing is it allows the company to compare itself with other like companies. If management feels things aren't going well, they can help pinpoint the problem through comparing their ratios with other companies. They may have several ratios that are comparable, but a couple which are way off. That might be where the problem is. Also, ratio analysis may help by comparing your company with prior periods. If a particular ratio is declining when it would be better if it were staying the same or increasing, then again looking at the ratios are important to find out where the problem lies

CLASSIFICATION OF RATIO Different ratios are used for different purpose these ratios can be grouped into various classes according to the financial activity. Ratios are classified into five broad categories. Classification of ratios Liquidity Ratio Solvency Ratio Turnover Ratio Profitability Ratio Valuation Ratio Current Ratio Quick Ratio Cash Ratio Debt equity Debt Debt charge Fixed charge Interest coverage Debt Turnover Fixed Asset Total asset Average collection Inventory Turnover Net Profit ROA ROCE P/E Ratio Dividend yield P/Bv Ratio Chart-5 Classification of Ratios) INTERPERTATION AND ANALYSIS Ratio analysis involves methods of calculating and interpreting financial ratios to assess the firm's performance. Ratio analysis of a firm's financial statements is of interest to shareholders, creditors and firm's own management. Ratio analysis is the starting point in developing the information desired by the analyst. Ratio analysis provides only a single snapshot, the analysis being for one given point or period in time. In ratio analysis it is possible to compare the company ratio with a standard one.

Ratio analysis can be classified as follows: * Liquidity ratio * Solvency ratio * Turnover ratio * Profitability ratio * Valuation Ratio 1. LIQUIDITY RATIO:

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Liquidity ratio measures the firm's ability to meet its current obligations i. e. ability to pay its obligations and when they become due. Commonly used ratios are: * Current ratio * Quick ratio * Cash ratio Current ratio It is a measure of general liquidity and is most widely used to make the analysis for short term financial position or liquidity of a firm.

It is calculated by dividing the total of the current assets by total of the current liabilities " Current ratio may be defined as the relationship between current assets and current liabilities. This ratio is also known as " working capital ratio". It is a measure of general liquidity and is most widely used to make the analysis for short term financial position or liquidity of a firm. It is calculated by dividing the total of the current assets by total of the current liabilities. " Formula $\text{Current ratio} = \frac{\text{current asset}}{\text{current liability}}$ Or Current asset: current liability

The two basic components of this ratio are current assets and current liabilities. Current assets include cash and those assets which can be easily converted into cash within a short period of time, generally, one year, such as marketable securities or readily realizable investments, bills receivables, sundry debtors, (excluding bad debts or provisions), inventories, work in progress, etc. Prepaid expenses should also be included in current assets because they represent payments made in advance which will not have to be paid in near future.

Current liabilities are those obligations which are payable within a short period of tie generally one year and include outstanding expenses, bills payable, sundry creditors, bank overdraft, accrued expenses, short term

advances, income tax payable, dividend payable, etc. However, sometimes a controversy arises that whether overdraft should be regarded as current liability or not. Often an arrangement with a bank may be regarded as permanent and therefore, it may be treated as long term liability. At the same time the fact remains that the overdraft facility may be cancelled at any time.

Accordingly, because of this reason and the need for conversion in interpreting a situation, it seems advisable to include overdrafts in current liabilities. Analysis: YEAR| 2011| 2010| 2009| 2008| 2007| CURRENT RATIO| 2.06| 3.99| 4.44| 3.98| 2.47| Table-2 Chart-6 As a conventional rule a current ratio of 2 to 1 or more is considered satisfactory. As the above graph and table shows, the company has a current ratio of 2.06. In 2007 the current ratio was 2.47 which increased to 3.98 in 2008 which further increased to 4.44 in 2009. Then in 2010 ratio decreased to 3.99 times.

In 2008 current asset increased and current liabilities also increased. But, increase in current asset was more which helps the current ratio to grow more than 2007. Same happened in 2008. Current asset increased more than current liabilities and the highest current ratio was in 2009. It was 4.44 times which highest ratio was in last five years. After that in 2010 the current ratio start declining as current asset increased but increase in current liabilities was more than the current asset. It decreased from 4.44 to 3.99. But in 2011 current ratio was just 2.06. It decreased by 1.5 times.

The current asset in 2010-11 was increased, but, increase in current liabilities was more than current asset which decreased the current ratio with

1. 5 times. Quick ratio: Liquid ratio is also termed as “ Liquidity Ratio”, “ Acid Test Ratio” or “ Quick Ratio”. It is the ratio of liquid assets to current liabilities. The true liquidity refers to the ability of a firm to pay its short term obligations as and when they become due. The quick ratio, which is also known as acid-test ratio is a better test of financial strength than the current ratio, as it gives no consideration to inventory, which may be very slow moving.

A comparison of the current ratio with quick ratio would give an indication regarding inventory position. Quick ratio is viewed as a sign of company’s financial strength or weakness (Higher number means stronger, lower number means weaker) Formula: Quick Ratio = $(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$ The two components of liquid ratio (acid test ratio or quick ratio) are liquid assets and liquid liabilities. Liquid assets normally include cash, bank, sundry debtors, bills receivable and marketable securities or temporary investments.

In other words they are current assets minus inventories (stock) and prepaid expenses. Inventories cannot be termed as liquid assets because it cannot be converted into cash immediately without a loss of value. In the same manner, prepaid expenses are also excluded from the list of liquid assets because they are not expected to be converted into cash. Similarly, Liquid liabilities means current liabilities i. e. , sundry creditors, bills payable, outstanding expenses, short term advances, income tax payable, dividends payable, and bank overdraft (only if payable on demand).

Some time bank overdraft is not included in current liabilities, on the argument that bank overdraft is generally permanent way of financing and is not subject to be called on demand. In such cases overdraft will be excluded from current liabilities. Analysis: Year| 2011| 2010| 2009| 2008| 2007| Quick Ratio| 1. 58| 2. 51| 3. 93| 3. 51| 1. 84| Table-3 Chart-7 Here we can see that if company's inventories do not sell, and it has to pay all its current liabilities hence company is able to meet all its obligations because its quick assets are more than its liabilities.

But as we can see that from 2007 it has been increasing but start decreasing from 2009 because its current liabilities slightly increased and current assets mainly cash got decreased significantly. In 2007-2009 cash and bank balances and debtors increases which leads to increase in quick ratio. But after 2009-2011 debtors and other current assets are increasing but cash and bank balances were continuously decreasing which leads to decreases in current asset. In 2010-2011 loans and advances also decreased which highly decreased the quick ratio.

Decrease in loans and advances and cash and bank balance leads to decrease in the current asset and which leads to the decrease in quick ratio from 2. 51 times in 2010 to 1. 58 times in 2011. This type of decrease in the quick ratio is not good sign of the good financial position. It should not decrease. There should always be increase in the quick ratio. It increased from 2007 to 2009 due to increase in cash and bank balance, other current asset and debtors but started declining from 2009 to 2011 due to decrease in loans and advances, and, bank and cash balance. Cash ratio:

The cash ratio is an indicator of a company's liquidity that further refines both the current ratio and the quick ratio by measuring the amount of cash; cash equivalents or invested funds there are in current assets to cover current liabilities. The cash ratio is the most traditional assess of analyzing liquidity position. Generally we meet our current liability with our current asset but the use of either the current or quick ratio is not good enough to analyze the liquidity position of the firm because it consists of account receivable and inventory, which takes time to convert with cash.

That's why it is really important to look how much cash the firm has in hand or at bank to meet its current liability and the cash ratio gives a better result.

Formula: $\text{Cash ratio} = \frac{\text{cash} + \text{cash equivalent invested fund}}{\text{Current liabilities}}$

Analysis: YEAR| 2011| 2010| 2009| 2008| 2007| CASH RATIO| 0. 24| 1. 99| 3.

18| 2. 53| 0. 25| Table-4 Chart-8 In 2007 cash ratio was 0. 25 times which

means that cash and bank balance was quite low. But after that in 2008 cash ratio increased by 2. 55 times. It means there is increase of 1. 25 times.

There is huge increase in cash ratio.

After that in 2009 the highest increase in cash ratio was found. The cash ratio was 3. 18 times. In 2010 cash ratio started declining as cash and bank balance decreased and current liability increased. But actually decrease was in 2010-2011. The cash ratio was just 0. 24 times. There was great decrease in cash and bank balance and good amount of increase in current liability. It means to pay the liability of 1 rs, MPSEZ have only 0. 25 rs to pay. 2.

LEVERAGE RATIO The short term creditors, like bankers and suppliers of raw material, are more concerned with firm's current debt paying ability.

On the other hand long term creditors like debenture holders, financial institutions are more concerned with the firm's long term financial strength. To judge the long term financial position of the firm financial leverage has been calculated. These ratios indicate mix of funds provided by owners and lenders. Many variations of these ratios exist; but all these ratios indicate same thing-the extent to which the firm has relied on debt in financing assets. Any ratio used to calculate the financial leverage of a company to get an idea of the company's methods of financing or to measure its ability to meet financial obligations.

There are several different ratios, but the main factors looked at include debt, equity, assets and interest expenses. A ratio used to measure a company's mix of operating costs, giving an idea of how changes in output will affect operating income. Fixed and variable costs are the two types of operating costs; depending on the company and the industry, the mix will differ. Types of leverage ratios are: * Total debt ratio * Debt equity ratio * Interest coverage ratio * Fixed charge coverage ratio * Debt charge coverage ratio Debt asset ratio: A ratio that indicates what proportion of debt a company has relative to its assets.

The measure gives an idea to the leverage of the company along with the potential risks the company faces in terms of its debt-load. The debt ratio is also known as the debt to capital ratio, debt to equity ratio or financial leverage ratio. The debt ratio shows the reliance on debt financing. A high debt ratio is unfavorable because it indicates that the company is already overburdened with debt. Formula: Debt ratio = $\frac{\text{Total debt}}{\text{Total asset}}$

The higher the ratio, the greater risk will be associated with the firm's operation.

In addition, high debt to assets ratio may indicate low borrowing capacity of a firm, which in turn will lower the firm's financial flexibility. Total liabilities divided by total assets. The debt/asset ratio shows the proportion of a company's assets which are financed through 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 assets are financed through debt. Companies with high debt/asset ratios are said to be "highly leveraged," not highly liquid as stated above.

A company with a high debt ratio (highly leveraged) could be in danger if creditors start to demand repayment of debt

Analysis: YEAR	2011	2010	2009	2008	2007
DEBT RATIO	0.31	0.40	0.35	0.33	0.42

Table-5
Chart-9 Here in the analysis of MPSEZ. It is clearly depicted that debt asset ratio is almost constant from last five years. In 2007 the debt asset ratio was 0.42 which decreased to 0.33 times which is quite favorable for the company. But in 2009 it increased to 0.35 which was not too bad, it is almost favorable. But in 2010 it increased to 0.40. Debt is taken more in this year.

It is not as good for the company. But in 2011 it decreased to 0.31 times which was quite favorable and good for the company. MPSEZ is not overburdened with debt. Debt asset ratio was quite effective. Debt equity ratio Debt-to-Equity ratio indicates the relationship between the external equities or outsiders funds and the internal equities or shareholders funds.

The debt-to-equity ratio (D/E) is a financial ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets. Closely related to leveraging, the ratio is also known as Risk Gearing or Leverage.

The two components are often taken from the firm's balance sheet or statement of financial position (so-called book value), but the ratio may also be calculated using market values for both, if the company's debt and equity are publicly traded, or using a combination of book value for debt and market value for equity financially. It is also known as external internal equity ratio. It is determined to ascertain soundness of the long term financial policies of the company. Formula: Debt equity ratio = external equities / internal equities Or = Outsider fund / shareholder's fund

Or = Long term debt / shareholder's fund The two basic components of debt to equity ratio are outsiders' funds i. e. external equities and shareholders' funds, i. e. , internal equities. The outsiders' funds include all debts / liabilities to outsiders, whether long term or short term or whether in the form of debentures, bonds, mortgages or bills. The shareholders funds consist of equity share capital, preference share capital, capital reserves, revenue reserves, and reserves representing accumulated profits and surpluses like reserves for contingencies, sinking funds, etc.

The accumulated losses and deferred expenses, if any, should be deducted from the total to find out shareholder's funds Some writers are of the view that current liabilities do not reflect long term commitments and they should be excluded from outsider's funds. There are some other writers who

suggest that current liabilities should also be included in the outsider's funds to calculate debt equity ratio for the reason that like long term borrowings, current liabilities also represents firm's obligations to outsiders and they are an important determinant of risk.

However, we advise that to calculate debt equity ratio current liabilities should be included in outsider's funds. The ratio calculated on the basis outsider's funds excluding liabilities may be termed as ratio of long-term debt to share holders funds. Analysis: YEAR| 2011| 2010| 2009| 2008| 2007| DEBT EQUITY RATIO| 0. 63| 0. 92| 0. 78| 0. 72| 1. 71| Table-6 Chart-10 In the above representation it is clearly shown that Debt equity ratio in 2007 was quite good. It was 1. 71 times. MPSEZ had good amount of equity to pay off the debt.

But as the time passes in 2008 the ratio decreased to 0. 72 times. This decrease occurs because amount of equity was increased more than the increase in debt. Than in 2009 the ratio increased to 0. 78 and in 2010 and 2011 it increased to 0. 92 times to 0. 63 times respectively. It means to pay equity of . 63 times we have net worth of 1 against it. Hence, it is a good sign for the company as it is able to pay against the total debt. Interest coverage ratio Interest coverage ratio is also known as debt service ratio or debt service coverage ratio.

This ratio relates the fixed interest charges to the income earned by the business. It indicates whether the business has earned sufficient profits to pay periodically the interest charges. A ratio used to determine how easily a company can pay interest on outstanding debt. The interest coverage ratio is

calculated by dividing a company's earnings before interest and taxes (EBIT) of one period by the company's interest expenses of the same period: The lower the ratio, the more the company is burdened by debt expense. When a company's interest coverage ratio is 1. or lower, its ability to meet interest expenses may be questionable. An interest coverage ratio below 1 indicates the company is not generating sufficient revenues to satisfy interest expenses. Formula Interest Coverage Ratio = Net Profit before Interest and Tax / Fixed Interest Charges The interest coverage ratio is very important from the lender's point of view. It indicates the number of times interest is covered by the profits available to pay interest charges. It is an index of the financial strength of an enterprise.

A high debt service ratio or interest coverage ratio assures the lenders a regular and periodical interest income. But the weakness of the ratio may create some problems to the financial manager in raising funds from debt sources. Analysis: YEAR| 2011| 2010| 2009| 2008| 2007| INTEREST COVERAGE RATIO| 10. 07| 5. 36| 3. 59| 3. 74| 3. 62| Table-7 Chart-11 MPSEZ always satisfied the lenders of the company. The company had enough profits to pay the interest to lender. In 2007 interest coverage ratio was 3. 62 times. It means. Profits are 3. 62 more than the interest to be paid to the lender.

It increased to 3. 74 times in 2008 but in 2009 it falls to 3. 59 times because of other expense which leads to decrease in Profit before Interest and Tax (PBIT). But in 2010 the ratio again increased to 5. 36 times which was quite good for the lenders and also shows the sound financial position of the company. It increased to 10. 07 times in 2011 which means it doubled from <https://assignbuster.com/ratio-analysis-of-mundra-port-and-sez-essay/>

the ratio of 2010. It is very good for the company and also depicts the sound financial position in the eyes of the lenders of the company. Fixed charge coverage ratio:

A ratio that indicates a firm's ability to satisfy fixed financing expenses, such as interest and leases. It indicates the number of times the interest lease expenses can be covered by the indebted firm's earnings (revenue). Since a failure to meet interest payments would mean a default under the terms of a bond indenture, this ratio indicates the available margin of safety. However, too high a ratio (too much safety) indicates an undesirably low level of leverage. A company may have such a high level of fixed financing costs that it cannot survive a sudden downturn in profits.

The fixed charge coverage ratio can be used to see if this is the case. It summarizes a company's fixed financing commitments, such as lease and interest payments, and divides them into a modified form of earnings before interest and taxes. A fixed charge coverage ratio close to one reveals that a company must use nearly all of its cash flows to cover fixed financing costs, and is a strong indicator of future problems if profits drop. Formula:
$$\frac{\text{Earnings / Profit before interest and taxes} + \text{lease expense}}{\text{Interest expense} + \text{lease expense}}$$

To calculate the fixed charge coverage ratio, add the lease expense to earnings before interest and taxes (EBIT) or profit before earning and tax (PBIT), and divide by the sum of the interest expense and lease expense. The types of financing expenses and other payments that are fixed can be subject to some interpretation; for example, if a lease is close to expiring,

there is no need to include it in the formula, since it is a forward looking measure, and there will be no lease payments in the future. Analysis: YEAR| 2011| 2010| 2009| 2008| 2007|

FIXED CHARGE COVERAGE RATIO| 9. 93| 5. 50| 4. 23| 4. 44| 4. 65| Table-8
Chart-12 In MPSEZ fixed charge coverage ratio was always in satisfactory position. The ratio in 2007 4. 655 times which decreased to 4. 44 times in 2008 due to increase in both profit before interest and tax as well as interest and lease expense, but, increase I lease expense and interest was more than the PBIT and lease expense. And in 2009 it again decreased because of the same above mentioned reason. But after 2009, in 2010 the fixed charge coverage ratio starts increasing. It increased to 5. times which is not good for the financial position of the company. In 2011 the ratio came up to 9. 93 times which is not good for the company. It increased because PBIT increases with good rate then the interest and lease expenses. Debt charge coverage ratio The debt service coverage ratio (DSCR), also known as “ debt coverage ratio,” is the ratio of cash available for debt servicing to interest, principal and lease payments. It is a popular benchmark used in the measurement of an entity’s (person or corporation) ability to produce enough cash to cover its debt (including lease) payments.

The higher this ratio is, the easier it is to obtain a loan Debt service coverage ratio (DSCR) essentially calculates the repayment capacity of a borrower.

DSCR less than 1 suggests inability of firm’s profits to serve its debts whereas a DSCR greater than 1 means not only serving the debt obligations but also the ability to pay the dividends. Debt Service Coverage ratio (DSCR), one of the leverage / coverage ratios, calculated in order to know the cash

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profit availability to repay the debt including interest. Essentially, DSCR is calculated when a company / firm takes loan from bank / financial institution / any other loan provider.

This ratio suggests the capability of cash profits to meet the repayment of the financial loan. DSCR is very important from the view point of the financing authority as it indicates repaying capability of the entity taking loan. Formula: $DSCR = \frac{PAT + Interest + Lease\ rental + Non\ cash\ expenses}{Installment\ (Interest + Principal\ repayment) + Lease\ Rental}$ Just calculating a ratio does not serve the purpose till it is not interpreted in the correct sense. The result of a debt service coverage ratio is an absolute figure. Higher this figure better is the debt serving capacity.

If the ratio is less than 1, it is considered bad because it simply indicates that the profits of the firm are not sufficient to service its debt obligations.

Acceptable industry norm for a debt service coverage ratio is between 1.5 to 2. The ratio is of utmost use to lenders of money such as banks, financial institutions etc. There are two objectives of any financial institution behind giving loan to a business viz. earning interest and not letting the account go bad. Analysis: YEAR| 2011| 2010| 2009| 2008| 2007| DEBT SERVICE COVERAGE RATIO| 0.45| 0.54| 2.11| 1.84| 1.24| Table-9 Chart-13

In MPSEZ, DSCR had changed a lot in last five years. In 2007 the DSCR was 1.24 which is good for the company. It means company is capable of paying the debts. After that in 2008 it increased to 1.84 which was good sign of growing companies. In 2009 company got highest DSCR, 2.11, which shows good financial condition of the company. But after that in 2009-2011 DSCR

ratio falls down. The ratio in 2010 was 0.54 which decreased to 0.45 which means company was not capable of paying off the debts. The company should work upon this because borrower depends upon the repayment capacity of the company.

The reason is refinancing. Loans are taken to pay off the other loans 3.

VALUATION RATIO A valuation ratio is a measure of how cheap or expensive a security (or business) is, compared to some measure of profit or value. A valuation ratio is calculated by dividing a measure of price by a measure of value, or vice-versa. The point of a valuation ratio is to compare the cost of a security (or a company, or a business) to the benefits of owning it. Valuation ratios covered here are: * P/E ratio * Dividend Yield * P/BV Ratio P/E ratio

The P/E ratio (price-to-earnings ratio) of a stock is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. The P/E ratio can therefore alternatively be calculated by dividing the company's market capitalization by its total annual earnings. The PE ratio has many variants. It may use adjusted or diluted earnings, it may be historical or forward, it may be an absolute or relative number, and it may be calculated over a single year or the long term. Formula: $P/E \text{ ratio} = \frac{\text{Price per share}}{\text{Earnings per share}}$

This is the most basic of the valuation ratios, but it is still a very viable valuation method that every investor needs to understand. Written as a formula the price/earnings ratio = price of the stock per share / earnings per share. Finding earnings per share information is simple these days as almost all financial sites have this information. The price/earnings ratio is a good

valuation method to use when comparing valuation versus peers and valuations from a historical standpoint. Analysis: YEAR| 2011| 2010| 2009| 2008| 2007| P/E ratio| 27. 58| 45. 23| 28. 12| 114. 67| 20. 3| Table-10 Chart-14 MPSEZ always tries to satisfy the investors. The P/E ratio of this company, from last five years, is quite good. In 2007 the P/E ratio is 20. 13 which increased to 114. 67 in 2008. 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 a lower P/E ratio. But in 2009 the ratio decreased to 28. 12 which were lowest in all five years. In 2010 ratio again raised to 45. 23 and in 2011 it increased up to 27. 58. Now from the above ratio of 2011 investors are not satisfied.

P/E ratio is lower means stock is not much expensive. They will not get good returns Dividend yield ratio Dividend yield ratio is the relationship between dividends per share and the market value of the shares. Share holders are real owners of a company and they are interested in real sense in the earnings distributed and paid to them as dividend. Therefore, dividend yield ratio is calculated to evaluate the relationship between dividends per share paid and the market value of the shares. Formula: Dividend Yield Ratio = Dividend per Share / Market Value per Share

While not every stock has a dividend, understanding that a dividend yield is essential in valuing a company is important. An investor can find the dividend yield of a stock by taking the annual dividend amount per share and dividing that by the stock price per share. A Dividend yielding stocks are typically more mature and more value related, as opposed to growth stocks which often yield nothing or almost nothing. Analysis: YEAR| 2011| 2010| <https://assignbuster.com/ratio-analysis-of-mundra-port-and-sez-essay/>

2009| 2008| 2007| DIVIDEND YIELD RATIO| 35. 44| 17. 74| 43. 32| 0| 7. 36|

Table-11 Chart-15 In 2007 the dividend yield ratio was 7. 36, which is quite good.

Then in 2008 dividend was not paid, which was not good. In 2009 again dividend is paid and ratio was 43. 32. Company should pay dividend to the shareholders from profit made out in 2009 dividend yield ratio was 43. 32 which was highest. But in 2010 it decreased to 17. 74 times. But in 2011 it again increased to 35. 44 times. P/Bv ratio A ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share. Formula: P/BV Ratio = Current Market Price Book Value per Share

P/BV is a valuation ratio and is arrived at by dividing the market price of a share with the respective company's book value per share. Now, book value is equal to the shareholder's equity (share capital plus reserves and surplus). Book value can also be arrived at by subtracting current liabilities and debt from total assets. For the banking and finance companies, book value is calculated as ' share capital plus reserves minus miscellaneous assets not written off. The book value of a company is a nice conservative valuation method that value investors and more traditional investors love to use.

The price book value ratio is found by taking the stock price per share and dividing it by the shareholder's equity per share. Over the years the book value has lost importance in many circles due to its undervaluing of modern asset types. A lower P/B ratio could mean that the stock is undervalued. However, it could also mean that something is fundamentally wrong with the

company. As with most ratios, be aware that this varies by industry.

Analysis: YEAR| 2011| 2010| 2009| 2008| 2007| P/BV Ratio| 3. 17| 0. 90| 0. 44| 0. 96| 5. 05| Table-12 Chart-16 In MPSEZ P/Bv ratio was never constant.

In 2007 it was 5. 5 but next year in 2008 the ratio was just 0. 96. But it further decreased to 0. 44 in 2009 but increased in 2010 to 0. 90. But in 2011 ratio went up to 3. 17. The ratio was never constant. It should be constant. And it should be high to give the benefit to the shareholders. 4.

TURNOVER RATIO A measure of the number of times a company's inventories' replaced during a given time period. Turnover ratio is calculated as cost of goods sold divided by inventory during the time period. A high turnover ratio is a sign that the company is producing and selling its goods or services very quickly.

The percentage of a mutual fund or other investment vehicle's holdings that have been " turned over" or replaced with other holdings in a given year.

The type of mutual fund, its investment objective and/or the portfolio manager's investing style will play an important role in determining its turnover ratio. Five turnover ratios are covered: * Inventory Turnover * Debtor's Turnover * Fixed Asset Turnover * Total Asset Turnover * Average collection period Inventory turnover ratio Stock turnover ratio and inventory turnover ratio are the same.

This ratio is a relationship between the cost of goods sold during a particular period of time and the cost of average inventory during a particular period. It is expressed in number of times. Stock turnover ratio/Inventory turnover ratio indicates the number of time the stock has been turned over during the period and evaluates the efficiency with which a

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firm is able to manage its inventory. This ratio indicates whether investment in stock is within proper limit or not. Average inventory and cost of goods sold are the two elements of this ratio.

Average inventory is calculated by adding the stock in the beginning and at the end of the period and dividing it by two. In case of monthly balances of stock, all the monthly balances are added and the total is divided by the number of months for which the average is calculated. Formula:

Inventory Turnover Ratio = Cost of goods sold / Average inventory at cost

Generally, the cost of goods sold may not be known from the published financial statements. In such circumstances, the inventory turnover ratio may be calculated by dividing net sales by average inventory at cost.

If average inventory at cost is not known then inventory at selling price may be taken as the denominator and where the opening inventory is also not known the closing inventory figure may be taken as the average inventory.

Analysis: YEAR| 2011| 2010| 2009| 2008| 2007| INVENTORY TURNOVER RATIO| 40. 37| 38. 19| 61. 67| 43. 91| 73. 69| Table-13 Chart-17 In MPSEZ, inventory turnover is always almost constant. In 2007 turnover was 73. 69 which decreased to 43. 91 and again increased to 61. 67. But in 2010 it declined to 38. 19 but again increased 40. 37.

It happens because the increasing rate of sales is higher than the rate of increase in inventory. Normally when inventory turnover increases we think that the stock of inventory is going to be finished but in this case the level of inventory has not decreased and thus we can guess that the firm will not face any inventory problem. But one thing is important that they are holding

much more inventory, which has tied up the cash balance. Debtors' turnover
A concern may sell goods on cash as well as on credit. Credit is one of the
important elements of sales promotion. The volume of sales can be
increased by following a liberal credit policy.

The effect of a liberal credit policy may result in tying up substantial funds of
a firm in the form of trade debtors (or receivables). Trade debtors are
expected to be converted into cash within a short period of time and are
included in current assets. Hence, the liquidity position of concern to pay its
short term obligations in time depends upon the quality of its trade debtors.
Debtors' turnover ratio or accounts receivable turnover ratio indicates the
velocity of debt collection of a firm. In simple words it indicates the number
of times average debtors (receivable) are turned over during a year.

Formula:

Debtors Turnover Ratio = $\frac{\text{Net Credit Sales}}{\text{Average Trade Debtors Or Total Sales / Debtors}}$
The two basic components of accounts receivable turnover
ratio are net credit annual sales and average trade debtors. The trade
debtors for the purpose of this ratio include the amount of Trade Debtors ;
Bills Receivables. The average receivables are found by adding the opening
receivables and closing balance of receivables and dividing the total by two.
It should be noted that provision for bad and doubtful debts should not be
deducted since this may give an impression that some amount of receivables
has been collected.

But when the information about opening and closing balances of trade
debtors and credit sales is not available, then the debtors' turnover ratio can

be calculated by dividing the total sales by the balance of debtors (inclusive of bills receivables) given. Analysis: YEAR| 2011| 2010| 2009| 2008| 2007| DEBTOR TURNOVER| 8. 83| 7. 53| 9. 40| 2. 54| 3. 35| Table-14 Chart-18 In the analysis of debtor turnover ratio of MPSEZ, it was clear that two year i. e. 2007 and 2008 ratio was not good. The turnover time of debtor was 3. 35 in 2007 and 2. 54 in 2008. But it was increasing which is good for the company.

After 2008 debtor turnover ratio turned to 9. 40 which were quite good. And in 2009 it again decreased to 7. 53. It turned to 8. 83 in 2011. It was always good for the company. If we analyze the figures of sales we can see that sales keep on increasing continuously. The figures of debtors keep on varying as it depends upon the collection of cash from them as this year amount of debtors gets reduced due to good collection of cash in spite of increased sales. Fixed asset turnover Fixed assets turnover ratio is also known as sales to fixed assets ratio. This ratio measures the efficiency and profit earning capacity of the concern.

Higher the ratio, greater is the intensive utilization of fixed assets. Lower ratio means under-utilization of fixed assets. The ratio is calculated by using following formula: Formula: Fixed Assets Turnover Ratio = Cost of Sales / Net Fixed Assets This ratio is often used as a measure in manufacturing industries, where major purchases are made for PP; E to help increase output. When companies make these large purchases, prudent investors watch this ratio in following years to see how effective the investment in the fixed assets was. Analysis: YEAR| 2011| 2010| 2009| 2008| 2007| FIXED ASSET TURNOVER| 0. 30| 0. 7| 0. 47| 0. 28| 0. 48| Table-15 Chart-19 Fixed asset turnover ratio of MPSEZ was not quit well in last five years. In 2007, <https://assignbuster.com/ratio-analysis-of-mundra-port-and-sez-essay/>

ratio was 0.48 which clearly shows that fixed assets are not underutilized. And after 2007, in 2008 ratio decreased to 0.28 which shows underutilization of fixed asset by the company. The main reason behind it was increase in asset and net sales but increase in asset was quite more. It decreases the fixed asset turnover ratio. In 2009 it increased to 0.47, but still it was not at all satisfactory. Again in 2010 it decreased to 0.27 and in 2011 it increased for 0.03 and it was 0.30.

The fixed asset turnover ratio was not at all satisfactory in the case of MPSEZ. They have fixed asset but they were not fully utilized. Assets were underutilized in MPSEZ. Total asset turnover The total asset turnover ratio measures the ability of a company to use its assets to generate sales. The total asset turnover ratio considers all assets including fixed assets, like plant and equipment, as well as inventory and accounts receivable. Formula: $\text{Total asset turnover} = \text{Net Sales} / \text{Total Assets}$ The lower the total asset turnover ratio, as compared to historical data for the firm and industry data, the more sluggish the firm's sales.

This may indicate a problem with one or more of the asset categories composing total assets - inventory, receivables, or fixed assets. The small business owner should analyze the various asset classes to determine where the problem lies. There could be a problem with inventory. The firm could be holding obsolete inventory and not selling inventory fast enough. With regard to accounts receivable, the firm's collection period could be too long and credit accounts may be on the books too long. Fixed assets, such as plant and equipment, could be sitting idle instead of being used to their full capacity.

All of these issues could lower the total asset turnover ratio Analysis: YEAR| 2011| 2010| 2009| 2008| 2007| TOTAL ASSET TURNOVER| 0. 22| 0. 19| 0. 32| 0. 18| 0. 38| Table-16 Chart-20 In the analysis of MPSEZ we came to know that company does not fully utilized the total asset. Ratio of last five year was quite low. In 2007 it was 0. 38 which decreased to 0. 18 in 2008 but again in 2009 it was just 0. 32. Low ratio always indicates under utilization of asset. The main reason behind low ratio was increasing profit and increasing assets but increase in assets were huge then the increase in profit.

So there is proper underutilization of assets. In 2010 and 2011 ratio was 0. 18 and 0. 38 respectively which means that still utilization of assets were not proper. The asset were under utilization. Company should work upon proper utilization of assets. Average collection period The Debtors/Receivable Turnover ratio when calculated in terms of days is known as Average Collection Period or Debtors Collection Period Ratio. The average collection period ratio represents the average number of days for which a firm has to wait before its debtors are converted into cash. Formula: $(\text{Trade Debtors ? No. f Working Days}) / \text{Net Credit Sales}$ The collection period or average collection period must be compared to competitors to see whether the credit given, and customer risk, is in line with the industry. A high collection period shows a high cost in extending credit to customers. The collection period is included in the financial statement ratio analysis spreadsheets highlighted in the left column, which provide formulas, definitions, calculation, charts and explanations of each ratio. In order to calculate average collection period, the number for accounts receivable comes off the company's balance sheet.

Sales come off the income statement and are adjusted for credit sales. Sales are then divided by the number of days in a year to come up with average daily credit sales. The final result is a number of days, which is the average collection period. In order to interpret the average collection period, you have to have comparative data. If you compare the average collection period to past years and it is increasing, that m