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Financial Statement Analysis of Beximco Synthetics Limited

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Abstract

This paper deals with the Financial Statement analysis of Beximco Synthetics Ltd. to get a practical view of how analysis is done using financial statements. We have taken the four year's (2010-2013) financial statements of the company to complete the whole analysis. In ratio analysis we calculated various ratios such as Internal Liquidity Ratios, Operating Efficiency Ratios, and Ratios for Risk Analysis and Operating Profitability Ratios etc. At first the financial statements were reformulated to get pure views of the trends regarding different items of the statements.

Keywords: Financial Statement Analysis, BSL, Ratio Analysis, DUPONT Analysis.

1. Introduction

The study of financial statements helps investment decisions by revealing information on the financial statements that is relevant to the decisions. The objective of the assessment is to determine the financial health of the company based on financial statements. To better financial statement analysis, much empirical accounting research has attempted to identify and measure value-relevant accounting qualities. Assumption is made in this study that market pricing acts as a suitable standard to compare firms' values and so serves as a reference for the accounting information. Accounting qualities are correlated with stock prices, therefore they might be seen as value-relevant. Several preceding 'information content' publications are the likes of Ball and Brown (1968) and their successors, and together, they demonstrate that accounting earnings and some of its constituents encapsulate market information.

2. Literature Review

Feroz, Kim, and Raab (2003) Ratio analysis is frequently used to assess the efficiency of a business. Another important reason why ratios are so widely accepted is that they are rather simple to calculate. Additionally, their interpretation is a source of confusion, particularly when two or more ratios send opposing messages. A last criticism of ratio analysis is that it is subjective because it is the analyst's job to choose ratios to evaluate the overall performance of a company.

Damitio, Schmidgall, and Dennington (1995) A few different ways exist for analyzing the Statement of

Cash Flows. The most common is the preparation of comparative statements of cash flows, while a less common technique is the use of ratio analysis. This article analyzes the financial accounts of a fictitious hotel, the Example Inn, using these financial statement analysis methods.

Standard-Setters (2002) An investigation of whether the manner financial reporting is done is affected by country cultures is performed by the writers. Three groups of professional accountants from the same large multinational accounting firm is used to carry out an experiment where the same financial information about two fake companies is presented to three separate sets of accountants, who hail from three different nations. Because the accounting regulations governing warranties are the same in every country, the accountants calculate warranty expenses for warranties (returned products). When investigating which figures may be considered "average," the authors discover that the estimations in the three nations vary greatly.

Gross leverage is the total liabilities of a business versus its equity. Many liabilities, like debt issued by banks or government agencies, are created through finance; however, other liabilities, such payables to suppliers, customers, and workers, result from doing business. In healthy capital markets, liabilities are often traded as price takers. However, since the input and output markets are imperfect compared to the capital markets, firms are able to add value in their operations. Operating liabilities, which originate in day-to-day business operations, have certain characteristics that bear similarity to those of liabilities created by external sources.

3. Analysis of Data

For ratio analysis, we have chosen Beximco Synthetics Limited. Here we have taken 4 years of data and our first calendar year of data is 2010.

Our Findings

By using the provided Ratio Analysis Template, we have found the following ratios:

Ratio	**Year**			
	2010	2011	2012	2013
Current Ratio	1.09	1.30	1.18	1.31
Quick Ratio	0.30	0.42	0.36	0.37
Inventory Turnover	1.07	1.06	0.98	1.07
Average Collection Period	24.47	51.41	55.57	46.88
Fixed Asset Turnover	1.38	1.47	1.68	2.07
Total Asset Turnover	0.57	0.55	0.55	0.62
Debt Ratio	0.61	0.57	0.57	0.54
Debt to Equity	0.19	0.21	0.00	0.00
Times Interest Earned	2.32	2.09	2.04	2.16
Gross Profit Margin	21.90%	18.48%	16.29%	13.33%
Operating Profit Margin	19.37%	15.94%	13.73%	10.96%
Net Profit Margin	10.50%	6.36%	3.69%	3.44%
Return on Total Assets (ROA)	6.02%	3.51%	2.03%	2.14%
Return on Equity (ROE)	15.26%	8.17%	4.72%	4.57%
Earnings Per Share (EPS)	TK 28.37	TK 16.54	TK 9.48	TK 9.22
Price/Earnings Ratio	6.11	8.17	10.55	8.73

And we have found the following results for *DUPONT Analysis*:

Ratio	**Year**			
	2010	2011	2012	2013
Net profit AT/Sales	10.50%	6.36%	3.69%	3.44%
Sales/Total Assets	57.36%	55.20%	54.93%	62.13%
ROA	6.02%	3.51%	2.03%	2.14%
Net profit AT/Total Assets	6.02%	3.51%	2.03%	2.14%
Total Assets/Stockholders Equity	253.40%	232.81%	232.64%	213.87%
ROE	15.26%	8.17%	4.72%	4.57%

Interpretation of Ratios

- **Current Ratio**

Current Ratio shows the ability to meet future short term financial obligation. Here we have the following current ratios of Beximco Synthetics:

Year	**2010**	**2011**	**2012**	***2013***
Current Ratio	*1.09*	*1.30*	*1.18*	*1.31*

As in all the years' current ratio is more than 1.00, it indicates good payment ability of the company. If it would be more than or equal to 2, then it would have more payment capacity.

- **Quick Ratio**

It indicates the speed of payment of a company. Here we have the following ratios:

Year	**2010**	**2011**	**2012**	***2013***
Quick Ratio	*0.30*	*0.42*	*0.36*	*0.37*

From the above data, we find that the ratios of the company are being increased year to year on an average. As it is below 1.00, we conclude that the Company is not in a satisfactory position in cash payment.

- **Inventory Turnover**

This ratio indicates the liquidity position of a company. Here we have the following inventory turnovers over the 4 years.

Year	**2010**	**2011**	**2012**	***2013***
Inventory Turnover	*1.07*	*1.06*	*0.98*	*1.07*

In 2010 and 2013, the company was in better position during the considered 4 years.

- **Average Collection Period**

Year	**2010**	**2011**	**2012**	***2013***
Average Collection Period	*24.47*	*51.41*	*55.57*	*46.88*

In 2012, the company's average collection period is 55.57 days. It is the worst collection efficiency of the company. Again, the company is in good position in collection in 2010 while its period is only 24.47 days.

- **Fixed Asset Turnover**

It reflects the utilization of the fixed asset. Over the years, the turnovers are as follows:

Year	**2010**	**2011**	**2012**	***2013***
Fixed Asset Turnover	*1.38*	*1.47*	*1.68*	*2.07*

The company's turnover is being increased year to year. Its growth rate is pretty good. The company had turnover 2.07 in 2013. It indicates that the company's fixed asset turnover is more than double of its fixed asset utilization capacity.

- **Total Asset Turnover**

This turnover ratio indicates the effectiveness of a firm's use of its total asset base. The findings are:

Year	**2010**	**2011**	**2012**	***2013***
Total Asset Turnover	*0.57*	*0.55*	*0.55*	*0.62*

The highest turnover is in 2013 that is 0.62. It is the highest turnover among the calculated years. It explains that the company is doing well year to year.

- **Debt Ratio**

Year	**2010**	**2011**	**2012**	***2013***
Debt Ratio	*0.61*	*0.57*	*0.57*	*0.54*

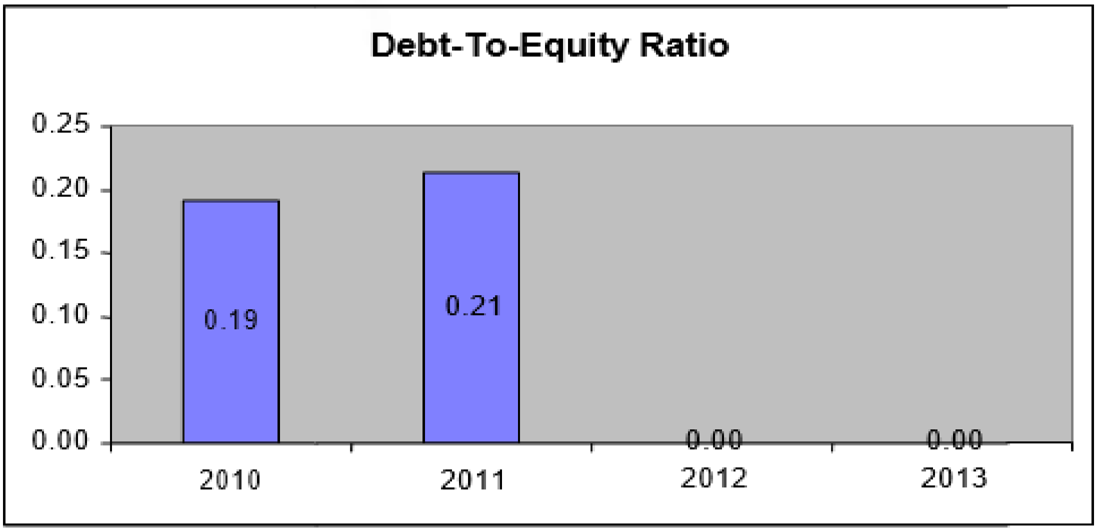
The Debt Ratio of the company is being decreased year to year. It is a good sign for the company as it lowers the financial risk as well as bankruptcy costs.

- **Debt-Equity Ratio**

The debt-equity ratios of the company for the last 4 accounting years have is given below in table:

Year	**2010**	**2011**	**2012**	***2013***
Debt to Equity	*0.19*	*0.21*	*0.00*	*0.00*

To have a clear understanding of these ratios, we present these in the following bar chart diagram:



In year 2012 and 2013, there was no debt of Beximco Synthetics. But in previous two years the company had 19% and 21% respectively. It is good news for the common shareholders of the company.

- **Times Interest Earned**

Year	2010	2011	2012	2013
Times Interest Earned	2.32	2.09	2.04	2.16

- **Gross Profit Margin**

It is an indication of the extent to which revenue exceed direct cost associated with sells. It measures the rate of profit on sales.

Year	2010	2011	2012	2013
Gross profit margin	21.90%	18.48%	16.29%	13.33%

The company is in bad position in 2013 comparing to year 2010 as its gross profit margin has decreased to a great extent. It may have happened for increasing costs or decreasing of sales of the company.

- **Operating Profit Margin**

It measures the rate of profit on sales after operating expenses.

Year	2010	2011	2012	2013
Operating profit margin	19.37%	15.94%	13.73%	10.96%

From the data we see that the company's profit margin is being lowered year to year. Hence the company's operating efficiency is being decreased as well. It may have happened because of increasing cost of goods sold, or increasing operating costs, or decreasing sales volume.

- **Net Profit Margin**

The data are as follows:

Year	2010	2011	2012	2013
Net profit margin	10.50%	6.36%	3.69%	3.44%

As gross profit margin and operating profit margin has decreased, this margin has decreased as well year to year. It tells us that the net income on net sales is being decreased. It is an indication of lower operating profitability of the company.

- **Return on Total Assets**

It tells us how much profit a company is able to generate for each TK of the assets invested.

Year	2010	2011	2012	2013
Return on Total Assets (ROA)	6.02%	3.51%	2.03%	2.14%

The company's return on assets is lowest in 2013, 2.14% and highest in 2010, 6.02%. Its growth rate is negative. So it's not a good situation for the company for their invested assets. It may have resulted because of increasing of invested assets but not increasing of sales volume in the same rate.

- **Return on Equity**

It is a comprehensive indicator of company's performance because it provides and indicates how well managers are implying the funds invested by the firm's shareholders to generate returns. The data of this ratio is given below:

Year	2010	2011	2012	2013
Return on Equity (ROE)	15.26%	8.17%	4.72%	4.57%

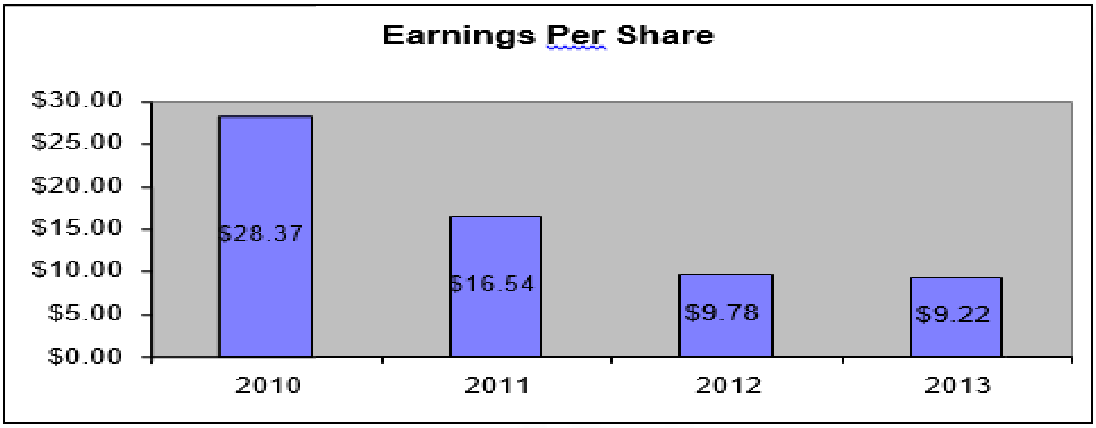
Generally it is a good sign if it is 10-14%. But in 2013 and during the previous years, this rate is being decreased.

- **Earnings per Share**

It is the ratio that point out rate of earnings on each share.

Year	2010	2011	2012	2013
Earnings per Share (EPS)	TK 28.37	TK 16.54	TK 9.48	TK 9.22

To have a better understanding, we have presented the above data in graph:



Here we find that EPS of Beximco Synthetics has been decreasing year to year. It is not a good sign for the company as well as company shareholders. In the year 2013, the company issued more 150,000 common shares. As a result, EPS decreased more in year 2013.

- **Price Earnings Ratio (EPS)**

Year	**2010**	**2011**	**2012**	**2013**
Price/Earnings ratio	6.11	8.17	10.55	8.73

Although price is decreasing year to year in Dhaka Stock Exchange, the amount of Price Earnings Ratio did not decrease. Besides, the EPS of the company has been decreasing as well. But the rate of decreasing of EPS was a little bit lower than Price growth. So the ratio has increased over the years.

The share price of Beximco Synthetics in DSE on 31 December in respective years was as follows:

Year	2010	2011	2012	2013
Share Price	TK 173.26	TK 135.07	TK 103.18	TK 80.50

DUPONT Analysis

- **Net profit AT/Sales**

Year	**2010**	**2011**	**2012**	**2013**
Net profit AT/Sales	10.50%	6.36%	3.69%	3.44%

The trend of net profit growth is decreasing. It is because the volume of cost of goods sold is increasing year to year. We have found that operating expense has not increased by this time rather it has decreased. So cost of goods sold is responsible for this decreasing growth.

- **Sales/Total Assets**

Year	**2010**	**2011**	**2012**	**2013**
Sales/Total Assets	57.36%	55.20%	54.93%	62.13%

We find that the ratio is highest in 2013. It has increased by 7.19% from year 2012. It is due to the decrease of total assets in 2013.

- **Return on Total Assets**

Year	**2010**	**2011**	**2012**	**2013**
ROA	6.02%	3.51%	2.03%	2.14%

Here the ROA has increased by 0.11% in 2013 because of increase in sales and decrease in total assets.

- **Total Assets/ Stockholders Equity**

Year	**2010**	**2011**	**2012**	**2013**
Total Assets / Stockholders Equity	253.40%	232.81%	232.64%	213.87%

Here the percentage change of total assets in the first 3 years was less than the percentage change of stockholders equity. So the ratios have decreased over the years. In last year, 2003, the total assets have decreased but the stockholders equity has increased as well. So there is a significant decrease in this year.

- Return on Equity (ROE)

Year	**2000**	**2001**	**2002**	**2003**
ROE	15.26%	8.17%	4.72%	4.57%

As the net income of the company over the years has decreased, but the stockholders equity has increased over the years, so the ROE of the company has decreased to a great extent over the years. In year 2012 and 2013, the percentage change is less comparing to previous years. It is because in 2013, the stockholders equity has increased.

4. Conclusion

The company was in bad position in 2013 comparing to year 2010 as its gross profit margin has decreased to a great extent. It may have happened for increasing costs or decreasing of sales of the company. The company's profit margin is being lowered year to year. Hence the company's operating efficiency is being decreased as well. It may have happened because of increasing cost of goods sold, or increasing operating costs, or decreasing sales volume. As gross profit margin and operating profit margin has decreased, this margin has decreased as well year to year. It tells us that the net income on net sales is being decreased. It is an indication of lower operating profitability of the company. The company's return on assets is lowest in 2013, 2.14% and highest in 2010, 6.02%. Its growth rate is negative. So it's not a good situation for the company for their invested assets. It may have resulted because of increasing of invested assets but not increasing of sales volume in the same rate. Generally it is a good sign if ROE is 10- 14%. But in 2003 and during the previous years, this rate is being decreased. Although price is decreasing year to year in Dhaka Stock Exchange, the amount of Price Earnings Ratio did not decrease. Besides, the EPS of the company has been decreasing as well. But the rate of decreasing of EPS was a little bit lower than Price growth. So the ratio has increased over the years.

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