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Ratio analysis of Fauji Cement Company Limited from 2008 to 2012

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ABSTRACT

Ratios are the basic tool for analyzing the financial statements; it also plays a vital role in evaluating the performance of the company. There are several important ratios used to judge the company's performance. Further more Financial statement analysis has also should be the part of the fundamental analysis required for equity valuation. But the analysis has typically been ad hoc. The work on this topic not only identifies the relevant ratios but also gives a way organizing analysis the task. Relying on recent research on accounting based information; this paper ventures a financial statement analysis for use in equity valuation in general and all other significant ratios in particular. An analysis of financing activities is different from the analysis of operating activities. Research is identifying current ratios as predictors of the future ratios that determine equity payoffs. The financial statement analysis enable us to identify the trend either upward or downward the performance of the company. To provide historical benchmarks for forecasting, typical values for ratios are documented for the period 2008–2012. The purpose of this study is to facilitate the investor. The reason for choosing the FCCL (Fauji Cement Company Limited) is that the company is well reputed, making adequate profit, focusing on the share's holder wealth and in the better financial position.

Introduction

A will known cement producing company, FCCL is located at Jhang Bhatar, District Attock, FCCL is the major concern of Fauji Foundation. Incorporated as a public limited company. It started its operation in 1997 on commissioning of 3150TPD F.L. Smidth plant of DENMARK. Subsequently in 2005, the plant capacity was enhanced to 3,885TPD.

To cop with the expanding demand of Fauji Cement a new line of 7560 TPD has been erected and its production started on 30 May 2011. The new plant is equipped with latest / state of art equipment and is also the first GERMAN plant of Pakistan cement Industry. The Portland Cement producer at this plant is the finest in the country. Major Equipment Supplier are:

POLYSIUSAG Germany.

LOESCHE GmBH Germany (Vertical Cement Mills).

HAVOR & BOECKER Germany (Packing Plant).

ABB Switzerland (Electrical Equipment and PLC).

In pursuance of its commitment to ENVIPOMENT, the company installed in 2009 first ever Refuse Derived Fuel (RDF) Processing Plant at a cost of Rs. 320 Million. It has not only provided economical fuel but demonstrated a better way of disposing Municipal Waste. In addition, this milestone achievement has shown the entire industrial sector the future path to follow.

FCCL is a ISO 9001:2008 and ISO 14001 : 2004 Certified Company with a total capacity of 11,445TPD and a strong and long-lasting tradition of service, reliability and quality.

Literature review

Ratio is generally defined as "The comparison between the two same kinds of quantities". While the ratio analysis "involves the methods of calculating and interpreting financial ratios to assess the firm's performance (Gitman, Principles of managerial finance).As we have selected the FCCL for the purpose of analysis, we thoroughly reviewed the financial statement accompanied with the annual reports of the FCCL. Other sources include the web sites that contain the relevant material and the books which are mentioned in the references.

Ratio analysis is vital both for the organization in general and for the investor in particular.

As a lecturer of Finance in Sarhad University of Science and information Technology it is mandatory to publish a paper in national or international journal recognize by the HEC, for the purpose of personal grooming and brighter future. As a researcher and practicing lecturer in Finance it makes sense to analyze financial ratios of certain organization. "Financial Ratio Analysis of "FCCL" where I am not only can transform my theoretical knowledge about business in general and in financial area of an organization in particular, into practical one, but also could prove fruitful for my professional career.

Target Audience of the research

The target audience is the investor. The investor is always interested in the analysis of the financial statements. For the sack of investment the investor has came through complicated, long and deep analysis of the financial statements. After the comprehensive analysis of financial statements the investor reaches on the decision either investment should be made or not. This research study will help the investor to make the decision easily and comfortably.

Research Question

To achieve the purpose, we have formulated the following research question.

Q. Why ratio analysis of the financial statements of the considered organization is mandatory for the investors.

Profitability Ratios

Gross Profit Margin = Net Sales – Cost of Goods Sold / Net Sales

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This ratio shows the profit of the firm to sale, after deducting the cost of goods sold, before the general, marketing and administrative expenses are taking into accountant. This ratio also measure the efficiency of the firm's operation and also indicate, how products are priced.

		2008	2009	2010	2011	2012
Profit						
Gross Profit Margin	%	18.56	31.75	13.54	17.35	26.63
Operating Profit Margin	%	19.96	30.98	9.61	12.48	24.23
Pre tax margin	%	12.82	26.75	8.53	10.29	8.39
After tax margin	%	11.66	18.96	6.57	8.98	4.80
Performance						
Return on total Assets	%	3.32	4.70	0.93	1.32	1.80
Total Assets turn over	Times	0.28	0.25	0.14	0.15	0.38
Fixed Assets turnover	Times	0.50	0.28	0.16	0.18	0.44
Return on paid up share Capital	%	5.57	13.58	3.37	5.74	4.00
Leverage						
Debt to equity ratio	Times	0.09	0.40	0.57	0.55	0.47
Current ratio	Times	2.16	0.81	0.63	0.89	0.76
Quick ratio	Times	2.06	0.74	0.60	0.80	0.58
Evaluation						
Earning per share (Basic)	Rs	0.85	1.43	0.31	0.52	0.29
Dividend per share	Rs	-	-	-	-	-
Dividend pay out ratio	%	-	-	-	-	-
Market price per share (average)	Rs	16.06	6.49	6.67	4.72	4.53

Goss Profit Margin

Gross Profit Margin					
Year	2008	2009	2010	2011	2012
Gross Profit Margin	18.56	31.75	13.54	17.35	26.63

The gross profit margin of FCCL is showing embedded trend of increase and decrease for the last five years from 2008 to 2009. In 2009 the gross profit margin which is 31.75 is much better as compared in 2008 which was 18.56. In 2010 the gross profit margin is very poor and in the subsequent years 2011 and 2012 is getting much better. The years in which the GPM ratio is not good it should be due to more expenditure on CGS.

Operating Profit Margin

A ratio which is widely used to evaluate a company's operational efficiency.

Operating Profit Margin = Net Income (Before Interest and tax) / Sales

Operating Profit Margin					
Year	2008	2009	2010	2011	2012
Operating Profit Margin	19.96	30.98	9.61	12.48	24.23

The operating profit margin of FCCL is showing embedded trend of increase and decrease for the last five years from 2008 to 2009. In 2009 the operating profit margin which is 30.98 is much better as compared in 2008 which was 19.96. In 2010 the operating profit margin is very poor and in the subsequent years 2011 and 2012 is getting much better. The years in which the OPM ratio is not good should be due to amount paid in interest and tax as expenses.

Pre tax margin

Pre tax margin = Earning before tax / Total sales

The ratio which shows the relation between Earning before tax to sales.

Pre tax margin					
Year	2008	2009	2010	2011	2012
Pre tax margin	12.82	26.75	8.53	10.29	8.39

The pre tax margin of FCCL is showing embedded trend of increase and decrease for the last five years from 2008 to 2009. In 2009 the pre tax margin which is 26.75 is much better as compared in 2008 which was 12.82. In 2010 the pre tax margin is very poor and in the subsequent years 2011 and 2012 is getting much better. The years in which the pre tax margin ratio is not good should be due to increased tax payment.

After tax margin

After tax margin = Net Income after Tax / Net Sales

The ratio which shows the financial performance of the firm. It is an important ratio, tells the investor the percentage of money a company actually earns per dollar of sale.

The after-tax profit margin is simply more limited because it takes taxes into account.

After tax margin					
Year	2008	2009	2010	2011	2012
After tax margin.	11.66	18.96	6.57	8.98	4.80

The after tax margin of FCCL is showing embedded trend of increase and decrease for the last five years from 2008 to 2009. In 2009 the pre after tax margin is 18.96 is much better as compared in 2008 which was 11.66. In 2012 the pre tax margin is very poor. The years in which the after tax margin ratio is not good should be due to increased tax payment.

Performance

Return on total Assets

Return on assets (ROA) reveals managements effectiveness in generating profits from the assets it has available, and is perhaps the single most important measure of return. It is computed as follows:

ROA = Net profit after tax / Total Assets

ROA = Net profit after tax / Total Assets					
Year	2008	2009	2010	2011	2012
ROA	3.32	4.70	0.93	1.32	1.80

The return on assets ratio of FCCL is showing embedded trend of increase and decrease for the last five years from 2008 to 2009. In 2009 the pre after tax margin is 18.96 is much better as compared in 2008 which was 11.66. In 2012 the pre tax margin is very poor. The years in which the after tax margin ratio is not good should be due to increased tax payment.

Total Assets turn over

Total Assets turn over = Net Sales / Total Assets

This ratio shows the relationship of net sales to total assets is known as the Total Assets Turnover.

This tells the relative efficiency with a firm utilizes its total assets to generate sales. Higher percentage shows the more efficiency of the firm.

Assets Turn Over Ratios

Assets Turn Over Ratio					
Years	2008	2009	2010	2011	2012
Assets Turn Over Ratio	0.28	0.25	0.14	0.15	0.38

Only in 2012 the ratio was 0.38 which is the higher one as compared to the last four years.

The reason for this fluctuation is that the investment in assets increases but the assets are not so efficiently and effectively utilized by the FCCL management. The FCCL management should consider and evaluate the ways and improve the efficiency of existing assets before any new investments in non current assets.

Fixed Assets turnover

Fixed Assets turnover = Total Sale / Fixed Assets

This ratio depict the efficiency of the firm with which the firm uses its fixed assets to generate the sale. In other words how efficiently the firm uses its fixed assets to generate the sale.

Fixed Assets turnover

Fixed Assets turnover					
Years	2008	2009	2010	2011	2012
Fixed Assets turnover	0.50	0.28	0.16	0.18	0.44

According to the above data regarding fixed assets turn over, in 2008 the ratio was 0.05 which seems to be highest as compared to other succeeding years. This ratio tells us that in

2008 the firm uses its fixed assets more efficiently. In 2012 the ratio was 0.44 which was the second highest one.

Return on paid up share Capital

This ratio measure the overall profitability of the firm, ROE (paid up capital) captures, in a single ratio, the amount of success can be measure if the manage its assets, operations and the adequacy of capital structure. Return on equity or return on investment (ROI), as it is sometimes called measures the return to the firm's stockholders by relating profits to shareholder equity:

Return on paid up share Capital = Net income / Share's holder equity

Return on paid up share Capital					
Years	2008	2009	2010	2011	2012
Return on paid up share Capital %	5.57	13.58	3.37	5.74	4.00

As we know return on paid up capital shows the annual payoff to investors, which in the case of FCCL in 2009 it was13.58 % for every dollar of equity which was the highest one as compared to the remaining succeeding years and in 2010 the percentage was 3.37 which was the lowest one.

Leverage

Debt to equity ratio

A measure of leverage or the relative amount of funds provided by lenders and owners, the debt-equity ratio is as follows:

Debt to equity ratio = Long term debt / Share holder's equity

Debt to equity ratio					
Years	2008	2009	2010	2011	2012
Debt to equity ratio	0.09	0.40	0.57	0.55	0.47

In 2008 the debt equity to ratio was 0.09 which means the firm relies more on equity rather debt which is some how good but in the consequences the firm will pay more income tax. From 2009 to 2011 the increasing trend is observed, the highest was in 2010. In 2010 the firm relies more on debt rather equity which cause in the shape of paying more interest rather tax.

Current ratio

Current ratio = Current Assets/ Current Liabilities

This ratio shows the firm's ability to cover its current liabilities with its current assets. The higher the ratio, the higher the will be the ability to meet its current liabilities.

Current Ratios

Current Ratios					
Years	2008	2009	2010	2011	2012
Current Ratios	2.16	0.81	0.63	0.89	0.76

From 2008 to 2012 the current ratio of FCCL depict embedded trend of increase and decrease. Only in 2008 the ratio was 2.16 which are good enough. After 2008 the ratio decreases, in 2011 the ratio again increases. High ratio shows better liquidity position of the firm.

Quick ratio

Quick ratio = Current assets – Inventory / Current liabilities

This ratio shows the firm's ability to meet its current liabilities with its most liquid assets. High ratio result the high liquidity position of the firm.

Quick Ratios

Quick Ratio					
Year	2008	2009	2010	2011	2012
Quick Ratio	2.06	0.74	0.60	0.80	0.58

The quick ratio of FCCL for the last five years is declining which indicates that it has unsatisfactory liquid assets. The liquidity of FCCL expect in 2008 which was 2.06 rupee to pay one rupee, is very poor. Ideally, it should be at least 1:1. The most appropriate condition is 2:1. The poor liquidity indicates that it may not be able to meet its current obligations.

Evaluation

Earning per share (Basic)

The EPS is widely reported but it is included here because it is used as part of other ratios. The basic purpose of this ratio is to calculate earning of the firm on per outstanding share.

EPS = Earning available for common stock holders / Number of common stock outstanding

EPS					
Year	2008	2009	2010	2011	2012
EPS	0.85	1.43	0.31	0.52	0.29

Earning per share of FCCL in 2008 was 0.85 which means the firm is earning 0.85 rupee on per outstanding share and in 2009 it reaches to 1.43 which is much better as compared to other years. In 2012 the worst figure was 0.29 which shows the firm is not earning the sufficient amount in 2012.

Dividend per share

The sum of the total declared dividends for every ordinary share issued. Dividend per share is the total dividends paid out over an entire year (including interim dividends but not including special dividends) divided by the number of outstanding ordinary shares issued.

Dividend per share = Annual Dividend / Number of common stock outstanding

Dividend per share					
Year	2008	2009	2010	2011	2012
Dividend per share	-	-	-	-	-

No dividend is paid to the common share's holder from 2008 to 2012.

Dividend pay out ratio

This ratio shows the percentage of earnings of the firm paid to shareholders in dividends.

A reduction in dividends paid by the company put bad effect on the investor, and the price of the stock usually depreciates as investors seek other dividend-paying stocks. A stable and suitable dividend payout ratio indicates a concrete dividend policy by the company's board of directors.

Dividend pay out ratio = Dividend per share / EPS

Dividend pay out ratio

Dividend pay out ratio					
Year	2008	2009	2010	2011	2012
Dividend pay out ratio	-	-	-	-	-

As dividend is not paid the dividend pay out ratio does not exist.

Market price per share (average)

Market Price Per Share = Net Income - Preferred Dividends/Number of Common Shares Outstanding

The market price per share of stock is a current measure of price, which is based on the information from a company's balance sheet. The market price per share is a financial metric that investors use to determine whether or not to purchase a stock.

Market price per share (average)					
Year	2008	2009	2010	2011	2012
Market price per share	16.06	6.49	6.67	4.72	4.53

In 2008 the market price per share is 16.06 which is the highest one as compared to the coming years that was 2009 to 2012. In 2012 the Market price per share was 4.53 which is the worst one.

Conclusion

This research is purely based on secondary data, for me this effort should be the first step on the stair of research. As I have evaluated the financial data of the FCCL, I am putting some suggestions over here. The over all financial position of the FCCL is good, but some areas should be focused to improve the company's financial position. During the analysis I have found 2010 was the worst year in all respect for FCCL, 2009 and 2012 was the relatively eminent years. From 2008 to 2012 the dividends are not paid to share holders which put negative impact on the investors.

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