

S Q U A R E

*Performance Analysis Of Square Textiles Limited*

**Project Report  
(BUS 498)**

Prepared For

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Department of Business Administration

Date of Submission

August 08, 2007

**EAST WEST UNIVERSITY**

43 Mohakahli C/A, Dhaka 1212, Bangladesh

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## Letter of Authorization

August 08, 2007

Md. Touhidur Rahman Miad

ID # 2004-2-10-202

Department of Business Administration

East West University

43 Mohakahli C/A, Dhaka-1212



### **Authorization of Report on Project Work (BUS 498)**

Dear Student

At your earliest convenience, will you please prepare a Project Report on "Performance Analysis of Square Textiles Limited" as the final requirement of your Bachelor of Business Administration (BBA) program? As a student of business administration, you are well qualified to undertake this Project Work.

Submit the report by August 08, 2007. Please contact with me if I can be assistance.

Sincerely

M Sayeed Alam

Senior Lecturer

Department of Business Administration

East West University

43 Mohakahli C/A, Dhaka-1212

## Letter of Transmittal

August 08, 2007

M Sayeed Alam

Senior Lecturer

Department of Business Administration

East West University

43 Mohakahli C/A, Dhaka-1212

### **Submission of Report on Project Work (BUS 498)**

Dear Sir

It gives me immense pleasure to submit the Project Report on “Performance Analysis of Square Textiles Limited” by August 08, 2007. It was a fantastic opportunity for me to prepare the Project Report under your guidance, which really was a great experience for me.

I have worked hard and tried my best effort in order to prepare the Project Report. I believe that it is encouragement for me to get involved with this process of reporting and a way to enrich my knowledge.

I have tried my best to follow your instruction, schedule, format and suggestion in every step of writing.

I will be very much pleased to provide further clarification on this report whenever it is necessary.

Sincerely



Md. Touhidur Rahman Miad

ID # 2004-2-10-202

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East West University

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## ACKNOWLEDGEMENT

First of all, my uncountable gratefulness for Almighty Allah who gives me lots of opportunities in my life to prepare myself as a sensible social being and helps me to achieve my career goals.

I am, in fact in learning process and this report certainly enriched my learning with a lot of potential knowledge, which is not available in the traditional system of education. Therefore I express my sincere gratitude to my honorable supervisor M Sayeed Alam, Senior lecturer, East West University. Without his continuous guidance and instructions it will be very difficult for me to complete this report work successfully.

My sincere thanks go to the others who helped me directly and indirectly in preparing this report.

Finally, grateful thanks to my family and friends who have been always with me and offered selfless support to me.





## EXECUTIVE SUMMARY

Square Textiles Limited is one of the ventures of SQUARE. The first unit of Square Textiles Limited was established in 1997. It is a public limited company incorporated with Registrar, Joint Stock Companies and firms under Companies Act 1913. The shares of the company are listed in the Dhaka Stock Exchange Limited (DSE) and Chittagong Stock Exchange Limited (CSE). The Company got ISO-9002 certificate in 2000. It manufactures 100% cotton yarn. Its target market is the export oriented readymade garment industry. It owns two units of spinning mills and its activities and operations are related with manufacturing and marketing of Yarn. In this report, I have tried to analyze the performance of the Company based on different financial techniques. I have analyzed different components of the financial statements. I have calculated growth in percentage of different components such as Sales, Net income, Retained earnings, Earning per share, Shareholders' Equity, Reinvestment etc. I have done ratio analysis, common size statement analysis and trend analysis to evaluate the firm's performance and growth prospect. I have also found out the dividend policy of Square Textiles Limited to understand whether the firm paid all income as dividend or invest funds in good investment opportunities. I have collected data from the annual report and the website of Square Textiles Limited. For analysis purpose, I have used the concept of various financial concepts and theories. Based on the analysis at the end, I have given my comments about firm's performance, different problems and I have given suggestions also. I have found out that although the firm had some problem with liquidity, asset turnover and production costs, the firm is performing moderately in an efficient manner. It has good growth prospect. The financial performance evaluation suggests that the firm is in good financial position and the financial condition is expected to improve in future.



## Table of Contents

Topics	Page Number	
<b>Acknowledgement</b>	<b>iii</b>	
<b>Executive Summary</b>	<b>iv</b>	
<b>Chapter One</b>	Origin of the Report	2
	Background of the Report	2
	Objective of the Report	2
	Scope of the Report	2
	Limitation of the Report	2
	Methodology of the Report	2
<b>Chapter Two</b>	Company Overview	4
<b>Chapter Three</b>	Capacity/Production	8
	Cost of Operation	8
	Market Exposure	9
	Foreign Exchange- Earned/Saved	10
	Investment in Subsidiary	10
<b>Chapter Four</b>	Overview of Operational Results	12
	Analysis of Operating Performance	13-20
<b>Chapter Five</b>	Ratio Analysis	22-27
	Activity Analysis	22-23
	Liquidity Analysis	24-25
	Solvency Ratio	25
	Profitability Ratio	26
	Return on Investment.	26
	Leverage	27
	EPS	27
<b>Chapter Six</b>	COMMON SIZE INCOME STATEMENT	29-30
	COMMON SIZE BALANCE SHEET	31-33
<b>Chapter Seven</b>	TREND Analysis	35-40
<b>Chapter Eight</b>	Dividend Policy	42
	Findings & Recommendation	43-44
	Conclusion	45
	Bibliography	46

# CHAPTER ONE



Origin of the Report



Background of the Report



Objective of the Report



Scope of the Report



Limitation of the Report



Methodology of the Report



### Origin of the Report

The report on "Performance Analysis of Square Textiles Limited" is to be prepared for honorable faculty advisor, M Sayeed Alam, Senior Lecturer, East West University. I have prepared this report as a core requirement for the completion of my BBA program.

### Background of the Report

The report conducted for the overall financial position of the Square Textiles Limited with the analysis of ratios, common size statements, and trend and dividend policies from year 2001 to 2006, which gives the idea of its liquidity position, asset utilization, profitability, growth potential etc. By this I can signify some portion of the financial condition of Square Textiles Limited and can give some recommended measures to step up the current situation to better serve the needs of the stakeholders.

### Objective of the Report

The principal objective of the report is to analyze the overall financial performance of Square Textiles Limited by using different financial and statistical techniques like ratio analysis, common size statements analysis, time series analysis etc.

### Scope of the Report

The report on "Performance Analysis of Square Textiles Limited" is going to give the reader a detailed profile of the financial situation. Also the reader will receive an in-depth knowledge about the numerous financial information, that is related to The Company's overall financial condition. In this report I haven't have opportunities to discuss about the marketing tools and techniques used by the Company.

### Limitation of the Report

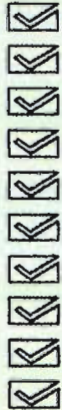
Limited knowledge about the company's internal and external environment, and inadequate sources of information and resources. The company's unwillingness to provide different information. Also time and financial constrains was the problem.

### Methodology of the Report

I have used data mainly from secondary external sources for this Report. The sources are the financial reports and website of Square Textiles Limited. Both quantitative and qualitative methods were used to write the whole report.



# CHAPTER TWO



<u>Company Overview</u>
<u>History</u>
<u>Vision</u>
<u>Mission</u>
<u>Objectives</u>
<u>Corporate Focus</u>



## Company Overview

### History:

**SQUARE** first ventured into the textile sector with its manufacturing facilities of cotton yarn with the establishment of the first unit of the **SQUARE** Textiles Limited in 1997. A year later, in 1998, the establishment of the second unit followed. In 2002 it enlisted in Dhaka and Chittagong Stock Exchange. In 2000 it awarded Oeko-tex Standard 100 & ISO-9002 Certificate. Combining modern technology with skilled manpower under **SQUARE**'s unique inspiring atmosphere, this new venture soon rose to the top of the local textile industry. Today it has one of the most sophisticated vertically integrated set-ups.

### Business of Square Textiles Limited:

It manufactures 100% cotton ring spun yarn for hosiery. Its target market is the export oriented readymade garment industry. It owns two units of spinning mills and its activities and operations are related with manufacturing and marketing of Yarn. It has one of the most sophisticated vertically integrated set-ups. Its venture comprises of –

- **Square Knit Fabrics Ltd.**
- **Square Spinning Ltd.**
- **Square Fashions Ltd.**

### Vision:

**SQUARE** Textiles Ltd's conception of business germinated from its vision which sees it as a means to the well being of the investors, stakeholders, employees and members of the society at large by creating new wealth in the form of goods and services that go to satisfy the wants of all of them without disturbing or damaging the socio-ecological-economic balance of the Mother Earth and the process of human civilization leading to peaceful co-existence of all the living beings.

### Mission:

Its mission is the pole star of its vision for maximization of production of quality life saving products and services strictly on ethical and moral standards at minimum costs to the society ensuring optimum benefits to the consumers, the shareholders and other stakeholders.

### Objectives:

**SQUARE** Textiles Ltd. realizes the need to stake out a competitive segment in the changing global market of today through technological excellence and human expertise. **SQUARE** Textiles Ltd. is committed to transpose its local success to the world scene.

Its objectives are –

- To establish ourselves as a one stop source for the Global Knit Apparel market.
- To satisfy and meet customer's expectation by developing and providing products and service on time, which offer value in terms of Quality, Price, Safety & Environmental impact.
- To assure complete compliance with the international quality standards.
- To strive hard to optimize profit through conduction of transparent business operations within the legal and social framework with malice to none and justice for all in respective of gender disparity, caste, creed or religion or region.
- To create more jobs with minimum investments.
- To be competitive in the internal as well as external markets.
- To maximize export earning with minimum imported in-puts.
- To reduce the income gap between top and bottom categories of employees.
- To promote corporate social responsibilities (CSR) amongst all.

### Corporate Focus:

**SQUARE** Textiles Ltd's vision is the pole star to its mission that fulfils its objectives with emphasis on the quality of product, process and services blended with good governance that help build the image of the most venerable corporate citizenship at home and abroad.

### Risk perception:

The company management perceives investment risk within the national and international economic perspectives in relation to legal and more requirements involving inter alia, intellectual property right, scientific invention, WTO Regulation, MFA etc and monetary and fiscal investment policies and has prepared its production and marketing strategies to meet the challenges from these risks.

### Research & Development

Evolution in Progress **SQUARE** Textiles Ltd. understands the need for continuous evolution. And so the highest importance is given to research and development. With the help of cutting edge technology and a dedicated team of experts composed of members from marketing, merchandising and product engineering departments, **SQUARE** Textiles Ltd. ensures continuous development and sampling at every stage of dyeing, spinning and finished garments production.

### Quality Assurance

An expert team of qualified persons is responsible to assure the quality of the materials to meet the international standards. In the garment-manufacturing unit we are following the quality standards within AQL Random Sampling Plan. In fabric production unit we are using various test methods according to AATCC, ISO & BS standards for checking the physical properties of fabric.

### HR and Social Responsibility










Four Dormitories for the work force and two Residential Buildings for the management staff provide more than 80% housing for the employees and we are the first of our kind in Bangladesh to provide accommodation facilities for our employees. Production and accommodation facilities include full time supply of safe drinking water, adequate lighting and ventilation facilities. Free meals, Free transportation, 24-hour medical center, on-site sports and recreational facilities encourage our motivated team to serve our customers full heartedly.

### In Harmony with Nature

**SQUARE** Textile Limited believes in sustainable development and gives highest priority to preservation of nature and ecological balance. The entire industry site is harmoniously integrated with the surrounding landscape and the native ecosystem of the area has been delicately preserved.



# CHAPTER THREE

	<b><u>Company's Operations</u></b>
	<b><u>Capacity/Production</u></b>
	<b><u>Cost of Operation</u></b>
	<b><u>Market Exposure</u></b>
	<b><u>Foreign Exchange-</u></b>
	<b><u>Earned/Saved</u></b>
	<b><u>Investment in Subsidiary</u></b>
	
	
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## Company's Operations

### Capacity/Production

		2001	2002	2003	2004	2005	2006
(A) Spindles/ Rotors Installation	No. of Spindle Installed	59472	59472	59472	59472	59472	59472
	No. of Rotor Installed	768	768	768	768	768	768
(B) Spindles/ Rotors Operation	No. of Spindle Installed	59472	59472	59472	59472	59472	59472
	No. of Rotor Installed	768	768	768	768	768	768
(C) Production capacity installed (Kg)	30s output (Ring yarn)	10796424	10796424	11005000	11115050	11271574	11271574
	10s output	2204392	2204392	2204392	2204392	2239230	2239230
(D) Actual Production (kg)	30s output (Ring yarn)	10525868	10691038	10924060	11022202	11099667	11024743
	10s output	2147043	2035877	2015044	2196280	2232795	2225227
(E) Productio n Efficiency (%)	30s output (Ring yarn)	97.49	99.02	99.26	99.16	98.47	97.81
	10s output	97.41	92.36	91.41	99.63	99.71	99.37

**Explanation:** From the above it is evident that though Spindleage / rotors installed remained same in 2006 as that of previous year production marginally decreased during 2006 over 2005 by .61%. Production efficiency also marginally fell in 2006 over 2005 due to production mix change. The total production increased year on year basis at the rates of 1.67%, 2.16% and 0.86% during the year 2003, 2004 and 2005 respectively. This was due to technical improvement in installed capacity.

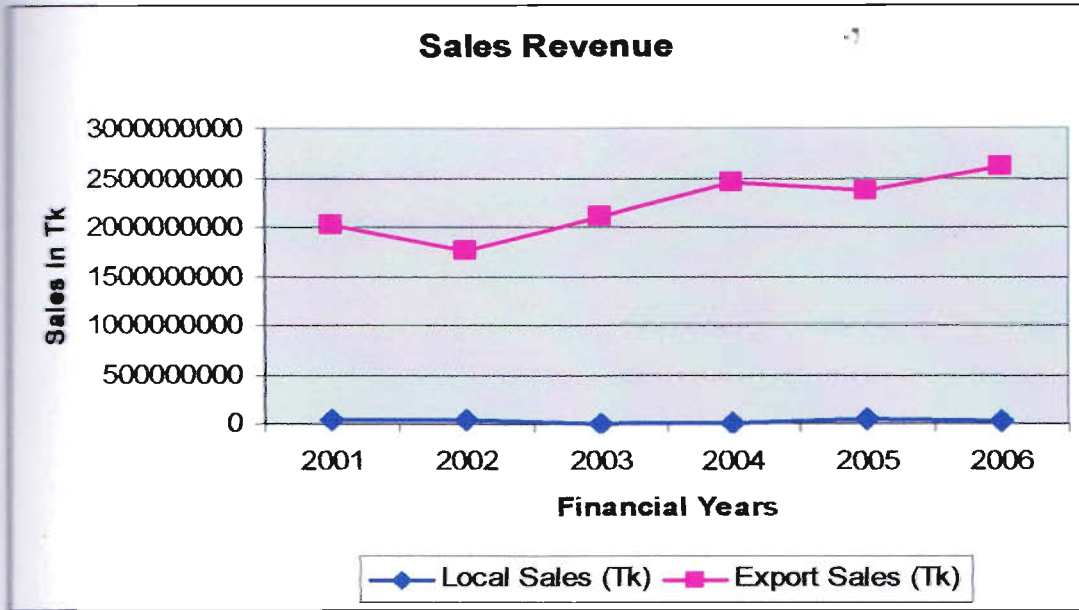
### Cost of Operation

	2001	2002	2003	2004	2005	2006
Output of Year (kg)	13881850	14296383	14550792	14892463	14932931	14025223
Total cost (Tk)	1701076298	1492657579	1727043423	2097630287	1836784629	2035293088
Unit cost/Kg	122.54	104.41	118.69	140.78	123.00	136.30
Raw material cost % of total	76.02	71.66	74.88	80.52	75.75	75.18

**Explanation:** The cost of production has varied during the past years primarily due to wide fluctuations in the price of raw cotton, packing materials, fuel & power and spare parts which were beyond the control of the management. The unit cost rose in 2006 over 2005 because of increase in fuel and spares parts costs.

### Market Exposure

	2001	2002	2003	2004	2005	2006
Local Sales (Kg)	539417	527903	99800	33500	248067	112706
Local Sales (Tk)	46956494	32576936	9455588	2665005	32632279	18307968
Export Sales (Kg)	13129599	13817314	14554342	14767220	14725387	14001403
Export Sales (Tk)	2029968545	1756441450	2093214675	2456535679	2358346242	2602657963



**Explanation:** The above figures show that sales revenue fell in 2005 due to fall in export prices in international market. Again it rose in 2006 because of sales price increased.

(Tk in Million)

**Foreign Exchange Earned/Saved**

























	2002	2003	2004	2005	2006
Total Export earnings	1756.44	2093.22	2456.54	2390.98	2620.96
Less, import costs					
Raw cotton	1206.70	1008.02	1660.01	1578.13	1897.19
Spare Parts	66.85	56.64	58.58	59.02	135.81
Miscellaneous	11.99	7.19	12.46	13.63	39.21
<b>Net Export Earnings</b>	<b>470.90</b>	<b>1021.37</b>	<b>725.37</b>	<b>740.20</b>	<b>548.75</b>

**Explanation:** The Company contributed substantially to the Foreign Reserve of the country during 2006 through its export marketing operation. This amounted to Tk 548.75 million.

**Investment in Subsidiary**

The Company has invested Tk 950000000 as equity (99.50%) in the capital of Square Yarns Limited and has also deposited Tk. 490948697 as share money deposit. As per Company Act 1994, Square Yarns Limited is a Subsidiary of Square Textiles Limited.

# CHAPTER FOUR

	<u>Overview of Corporate</u>
	<u>Operational Results</u>
	<u>Analysis of Operating</u>
	<u>Performance</u>
	
	
	
	
	
	
	
	
	
	
	
	
	
	
	
	
	
	
	
	



## Overview of Corporate Operational Results

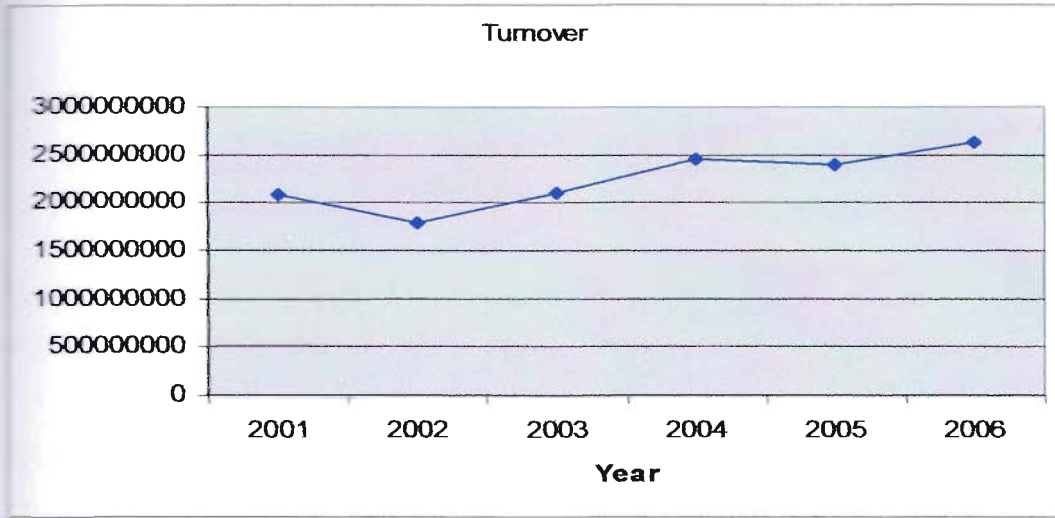
	<b>2001 (Tk)</b>	<b>2002 (Tk)</b>	<b>2003 (Tk)</b>	<b>2004 (Tk)</b>	<b>2005 (Tk)</b>	<b>2006 (Tk)</b>
Turnover	2076925000	1789018000	2102670000	2459201000	2390979000	2620966000
Net profit after tax	174723000	81453000	167894000	198690000	255494000	348833000
Total assets	2613633000	2382055000	2501397000	2537295000	2585177000	3120686000
Shareholders' equity	1140724000	1146608000	1233894000	1349457000	1513511000	1770905000
No. of share outstanding	25190000	25190000	25190000	27709000	30479900	34289887
Shareholders' equity per share	41.17	41.38	44.53	48.7	49.66	51.65
Face value per share	10	10	10	10	10	10
Market price per share	-	26.9	43.1	138.3	81.7	75.6
Price earning ratio (Time)	-	8.33	6.46	19.29	9.75	7.43
Earning per share (EPS)	6.31	2.94	6.06	7.17	8.38	10.17
Retained earnings	-	597780098	642322528	732695206	869040836	1088334719
Cash dividend (amount)	75570000	80608000	75570000	83127000	91439700	102869661
Stock dividend (amount)	-	-	25190000	27709000	38099870	51434830
Dividend declared per share	3	3.2	3	3	3	3
Dividend declared per share (stock)	-	-	10:01	10:01	8:01	100:15
Dividend declared (%)	30	32	40	40	42.5	45
Reinvestment	49240000	19500000	17820000	51380000	162530000	61580000

Market price per share in 4<sup>th</sup> July 2007 was Tk.111.00.



Analysis of Operating Performance

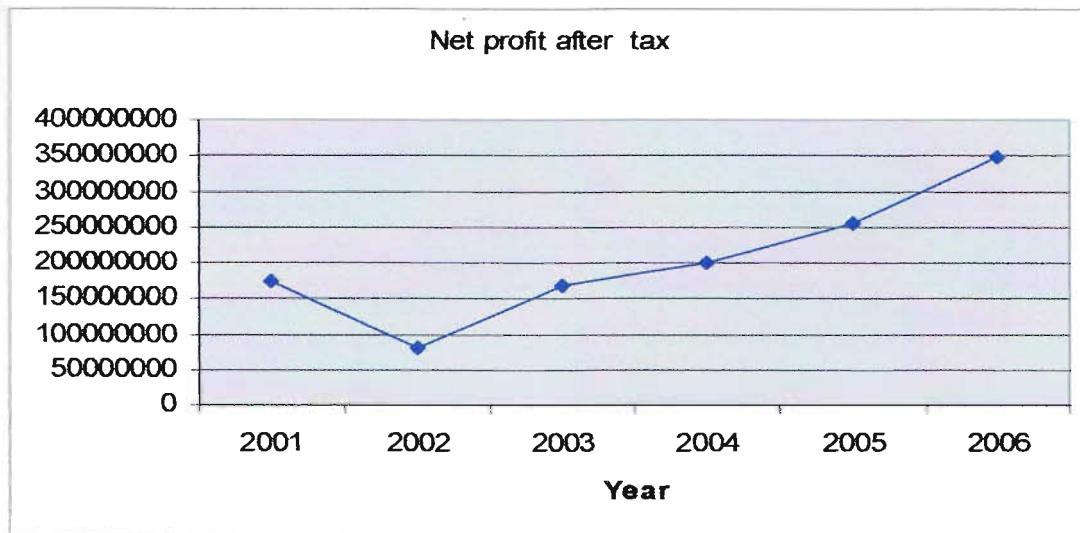
Turnover



Year	Sales (TK)	Growth in percentage
2001	2076925000	-
2002	1789018000	-13.86%
2003	2102670000	17.53%
2004	2459201000	16.96%
2005	2390979000	-2.77%
2006	2620966000	9.62%

**Explanation:** Because of decreasing in export sales, total turnover decreased in 2002 and 2005. Though local sales decreased in 2004, total sales increased because of increase in export sales. There was an increasing trend in sales.

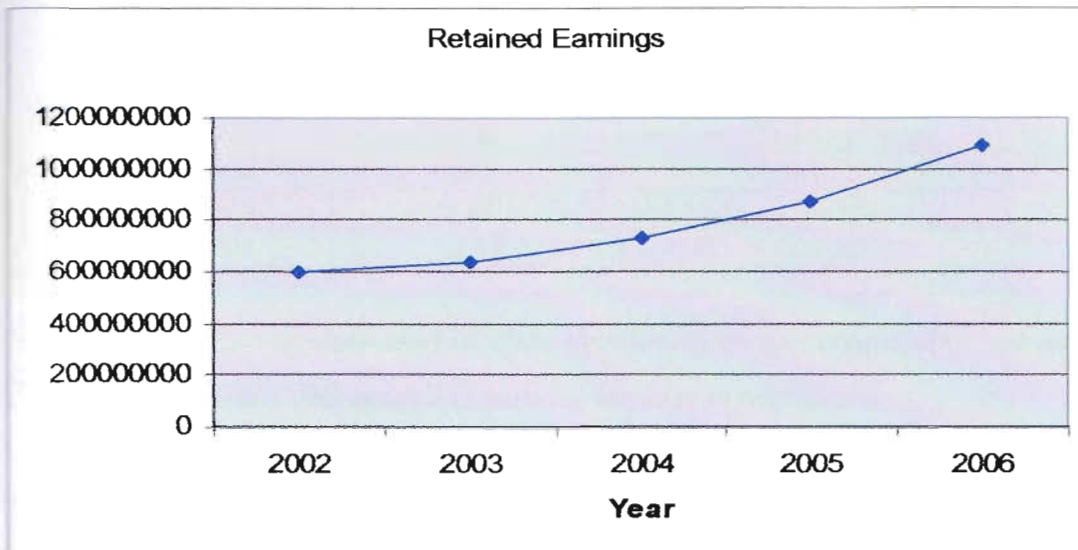
Net profit after tax



Year	Net profit after tax (Tk)	Growth in percentage
2001	174723000	-
2002	81453000	-53.38%
2003	167894000	106.1%
2004	198690000	18.34%
2005	255494000	28.6%
2006	348833000	36.5%

**Explanation:** Net Profit after tax was declined by 53.38% in 2002. But afterwards was increasing at a higher rate.

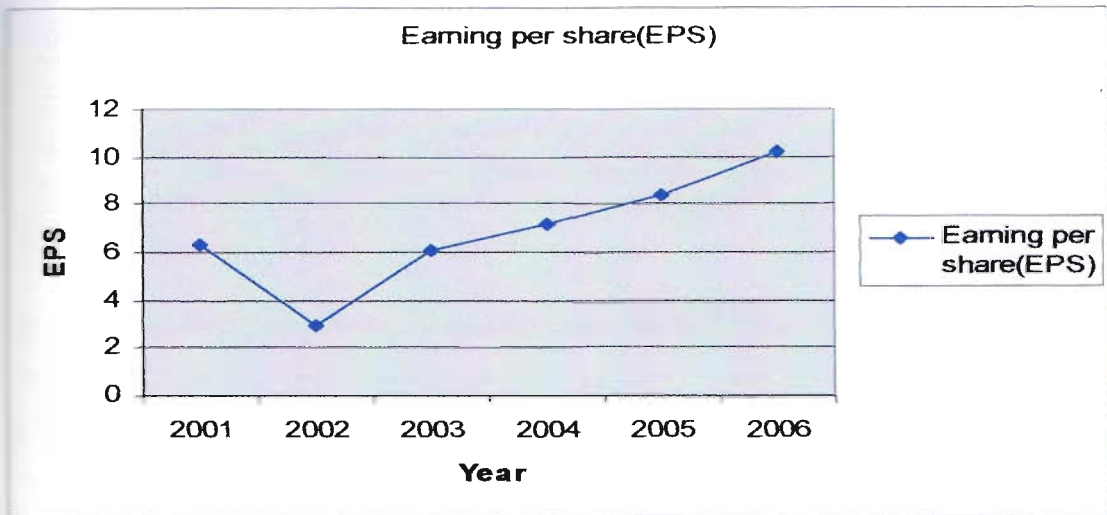
### Retained Earnings



Year	Retained Earnings (Tk)	Growth in percentage
2002	597780098	-
2003	642322528	7.451%
2004	732695206	14.07%
2005	869040836	18.6%
2006	1088334719	25.2%

**Explanation:** Retained earnings were increasing every year at a higher rate.

**Earning per share (EPS)**



Year	EPS (Tk)	Growth in percentage
2001	6.31	-
2002	2.94	-53.41%
2003	6.06	106.1%
2004	7.17	18.32%
2005	8.38	16.9%
2006	10.17	21.4%

**Explanation:** EPS was decreased in 2002 by 53.41% as net income after tax decreased by 53.38%. Afterwards it was increasing with the increase in net income.

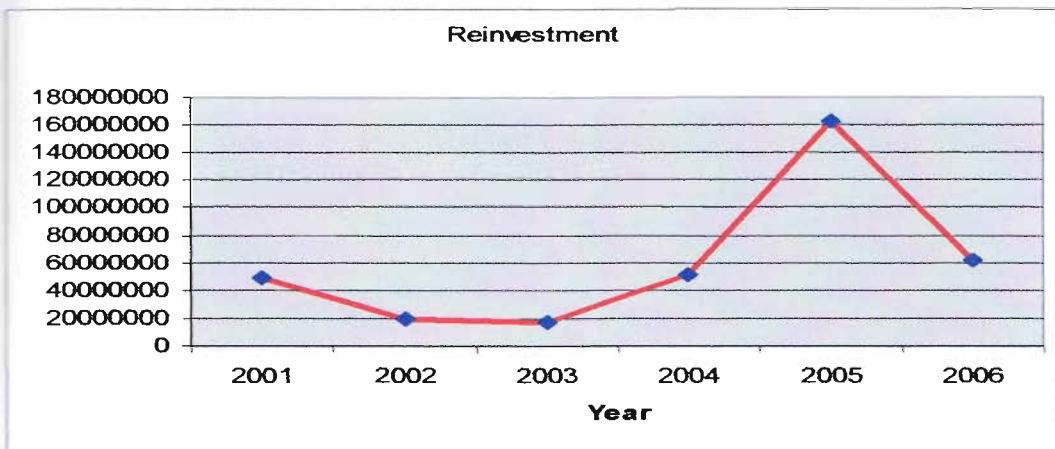
**Shareholders Equity Per Share**



Year	Shareholders Equity Per Share (Tk)	Growth in percentage
2001	41.17	-
2002	41.38	0.5158%
2003	44.53	7.613%
2004	48.7	9.366%
2005	49.66	12.2%
2006	51.65	17%

**Explanation:** Shareholders equity was increasing from 2001 to 2006. It was increased by 17% in 2006.

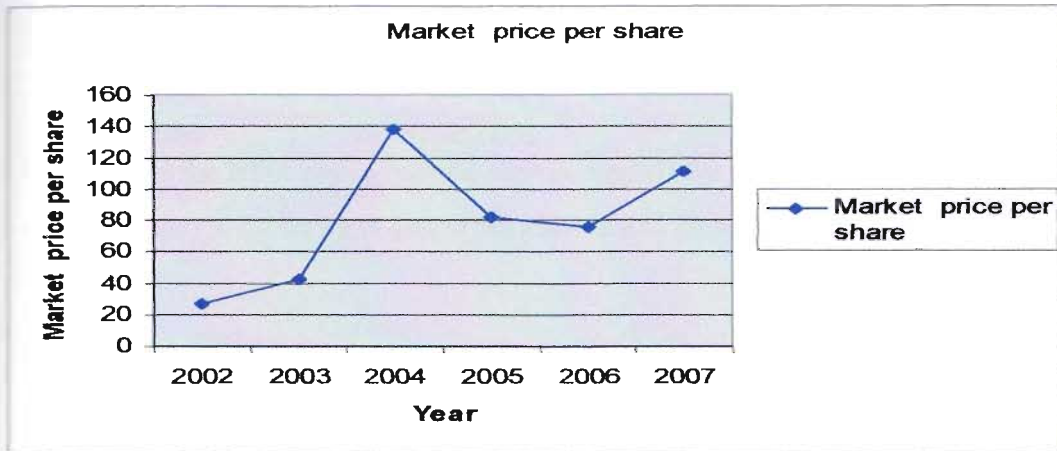
**Reinvestment**



Year	Capital Expenditure (Tk)	Growth in percentage
2001	49240000	-
2002	19500000	-60.4%
2003	17820000	-8.615%
2004	51380000	188.3%
2005	162530000	216%
2006	61580000	-62%

**Explanation:** Capital expenditure was increased by 216% in 2005 because of investment in Square Yarns Ltd.

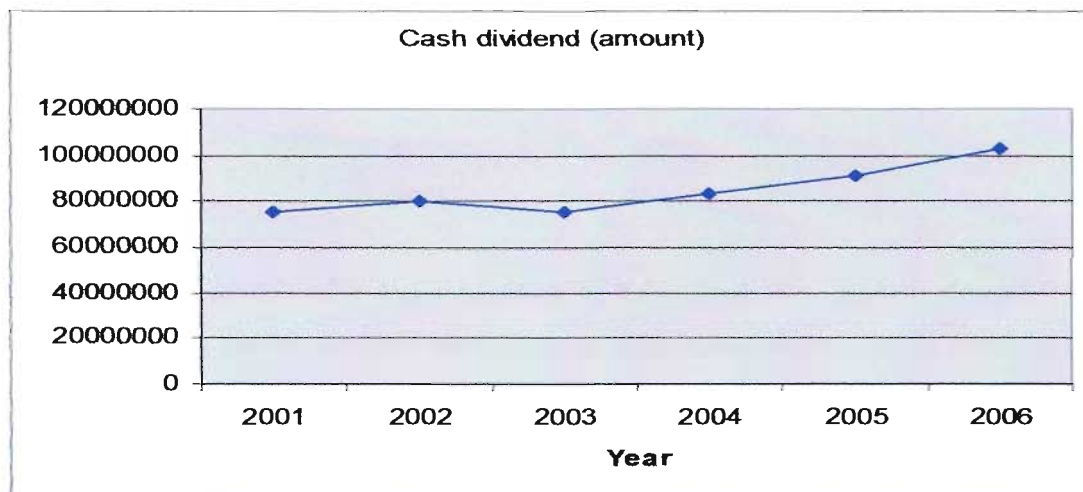
**Market Price**



Year	Market Price (Tk)	Growth in percentage
2002	26.9	-
2003	43.1	60.22%
2004	138.3	220.9%
2005	81.7	-40.9%
2006	75.6	-7.5%
2007	111	46.83%

**Explanation:** Market price was increased in 2004 by 220.9% and become Tk.138.3. It might happen in response to increased dividend. In that year, Square Textiles declared 30% cash dividend with 10% bonus share. Though net income and dividend were increased in 2005 & 2006, market price was decreased. It might happen because of other reasons such as overall market conditions of the Bangladesh capital market.

**Cash Dividend (amount)**





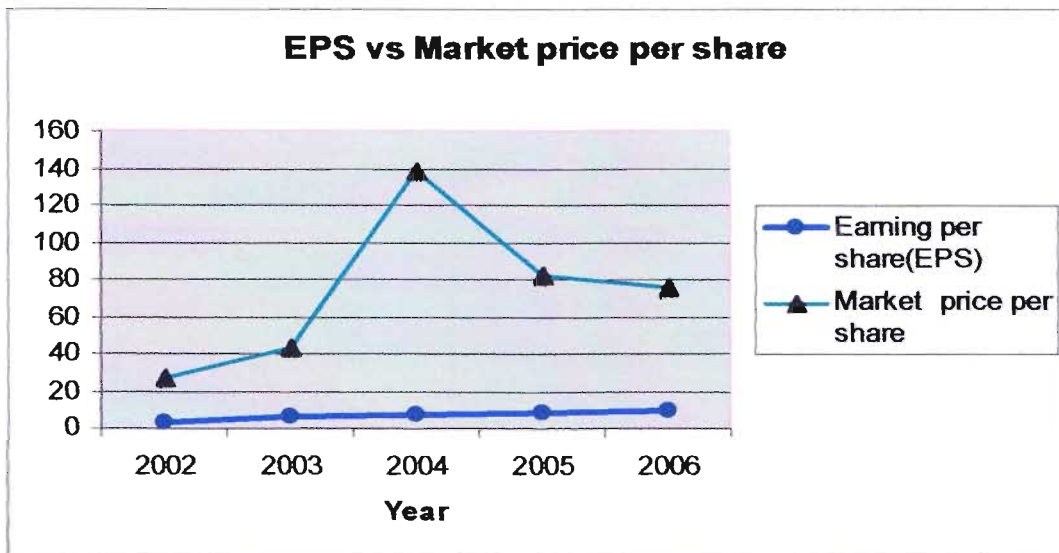
Year	Cash Dividend (Tk)	Growth in percentage
2001	75570000	-
2002	80608000	6.6667%
2003	75570000	-6.25%
2004	83127000	10%
2005	91439700	10%
2006	102869661	12.5%

**Explanation:** In 2003 cash dividend was decreased by 6.25% because of reducing dividend per share from Tk.3.2 to Tk.3. But from 2004 it was increasing at an increasing rate.

**Comparative study among EPS, Cash dividend per share and Price per share**

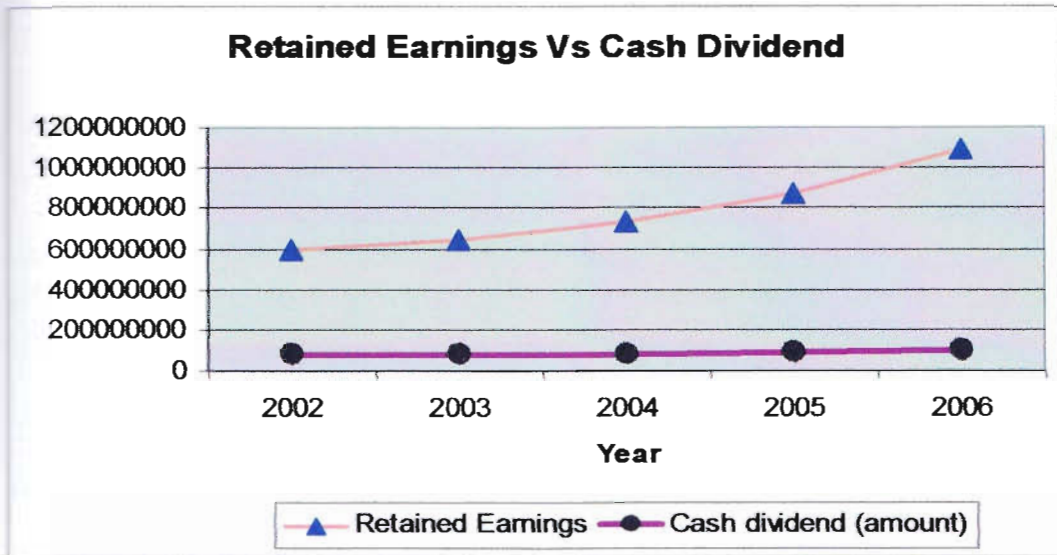
Year	EPS (Tk)	Cash dividend/share (Tk)	Average price/share (Tk)
2001	6.31	3	-
2002	2.94	3.2	26.9
2003	6.06	3	43.1
2004	7.17	3	138.3
2005	8.38	3	81.7
2006	10.17	3	75.6

**EPS Vs Market Price Per Share:**



**Explanation:** Though EPS was increasing at a constant rate, growth rate of market price showed ups and downs. In 2004 market price was increased by 220.9% from 2003. It might happen because of increased dividend of 10% bonus share.

**Retained Earnings vs. Cash Dividend (in amount):**



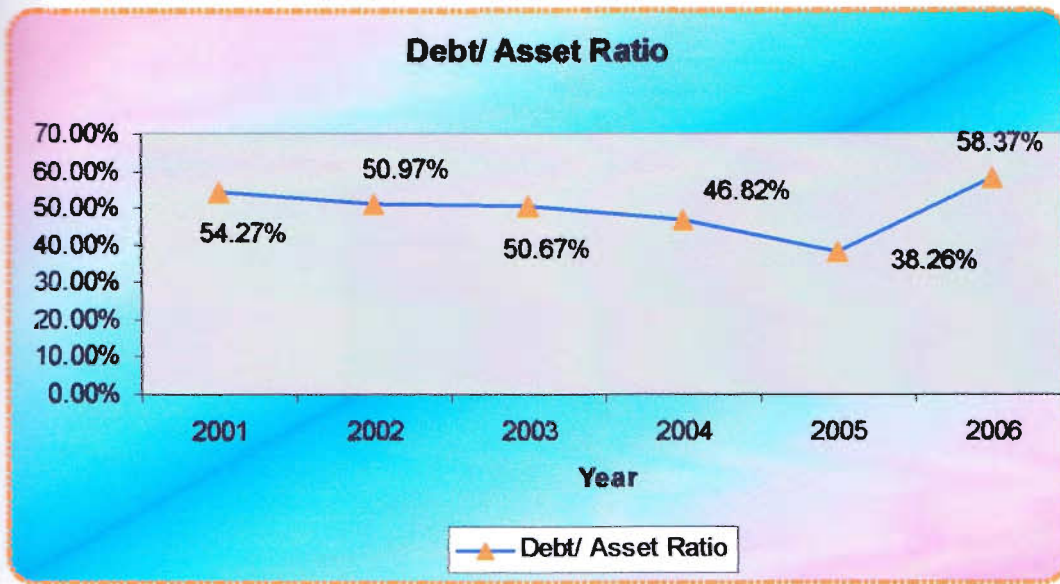
**Explanation:** Cash dividend remained almost fixed at a certain level whereas retained earnings was increasing at an increasing rate.

**Dividend payout ratio:**

Year	Retained earnings (1)	Cash dividend (2)	Dividend payout ratio (2 ÷ 1)
2002	597780098	80608000	13.48%
2003	642322528	75570000	11.77%
2004	732695206	83127000	11.35%
2005	869040836	91439700	10.52%
2006	1088334719	102869661	9.45%

**Explanation:** Dividend payout ratio was decreasing over the years. It might happen because of increased rate of reinvestment.

**Debt to Asset Ratio**



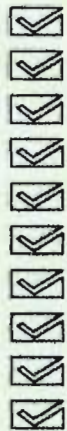
Year	Total Debt (1)	Total Asset (2)	Debt to Asset Ratio (1÷2)
2001	1418293000	2613633000	54.27%
2002	1,214,172,000	2,382,055,000	50.97%
2003	1,267,503,000	2501397000	50.67%
2004	1,187,839,000	2537295000	46.82%
2005	989,212,000	2585177000	38.26%
2006	1,821,676,361	3120686000	58.37%

**Explanation:** From this debt ratio the firm’s capital structure could be understand. From this ratio it could be find that how much of the firm’s assets were financed by total debt and equity. On an average the firm had financed 50 % of its assets by debt and other by equity. In 2006 the firm financed 58.37 % of its assets by debt. Over the years the firm had leverage as they used debt in their capital structure.



# CHAPTER FIVE

## RATIO ANALYSIS



- Activity Analysis
- Liquidity Analysis
- Solvency Ratio
- Profitability Ratio
- Return on Investment
- Leverage
- EPS



## RATIO ANALYSIS

**(A) Activity Analysis:** It measures the efficiency of the firm to utilize both short term and long term assets to generate sales.

### Short Term Activity Ratio:

1. **Inventory Turnover Ratio** = Cost of Goods Sold (COGS)/Average Inventory

2004	2005	2006
6.07	4.90	4.09

**Explanation:** This ratio indicates that inventory was turned over 6.07, 4.90, and 4.09 times in 2004, 2005 & 2006 respectively. (1 turnover = the time from purchase of raw material up to sell of finished goods.). Higher this ratio is better. This ratio decreased in both 2005 & 2006 because of increase in inventory. That means the efficiency in inventory management may be decreased.

2. **Average number of days inventory in stock** = 365/Inventory Turnover

2004	2005	2006
60.18	74.46	89.32

**Explanation:** Shorter this period is better as it indicates that shorter period inventory remain in stock, so inventory cost reduce. Here both 2005 & 2006 this ratio increase indicates that efficiency of inventory management may be reduced.

3. **Receivable Turnover ratio** = Sales / Average Receivables

2004	2005	2006
2.95	3.16	3.19

**Explanation:** This ratio indicates that inventory was turned over 2.95, 3.16, and 3.16 times in 2004, 2005 & 2006 respectively. (1 turnover = the time from sell of finished goods up to collection of money). Higher this ratio is better. This ratio increased in both 2005 & 2006 because of increase in inventory. That means the efficiency in credit policy may be increased.

4. **Average number of days receivable outstanding** = 365/ receivable turnover

2004	2005	2006
123.93	115.52	114.36

**Explanation:** Shorter this period is better as it indicates that shorter period receivables remain outstanding. Here both 2005 & 2006 this ratio decrease indicates that efficiency in credit policy may be increased.

5. **Payable Turnover ratio** = Purchase/ Account Payable

2004	2005	2006
1.54	2.25	2.38

**Explanation:** This ratio indicates that inventory was turned over 1.54, 2.25, and 2.38 times in 2004, 2005 & 2006 respectively. (1 turnover = the time from purchase of raw materials up to

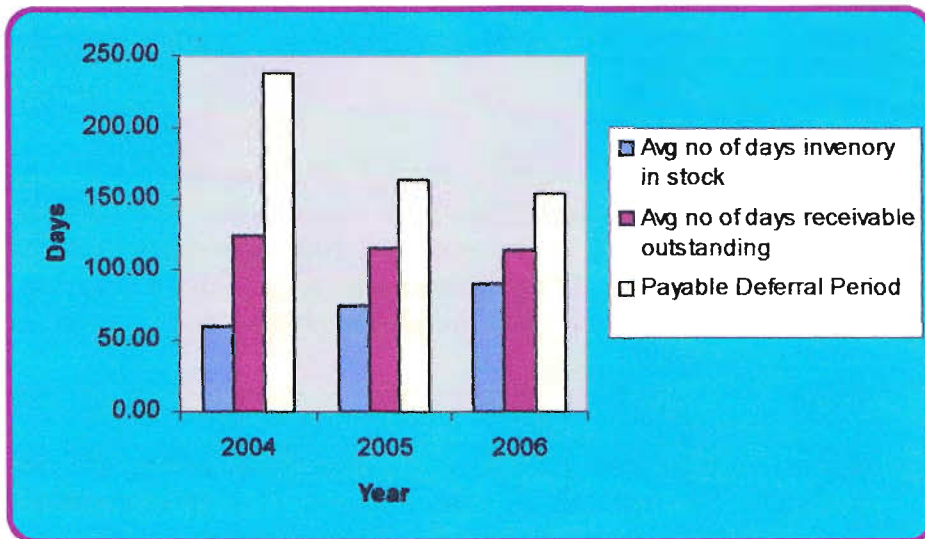


payments). Lower this ratio is better. This ratio increased in both 2005 & 2006. That means lower period payable remain outstanding and firm had lower time period for financing.

**6. Payable deferral period = 365/ Payable Turnover**

2004	2005	2006
236.82	162.4	153.54

**Explanation:** Higher this period is better as it indicates that longer period payables remain outstanding and firm had lower time period for financing. Here both 2005 & 2006 this ratio decrease indicates that firm's financing period decreased.



**Explanation:** This graph summarizes above analysis and shows the efficiency of the firm's inventory management, credit policy and payable management in 2004, 2005, & 2006. I find that the firm's credit policy was efficient but need improvement in inventory management & payable management.

**Long term activity ratio:**

**1. Fixed asset turnover ratio = Sales/ Average fixed assets**

2001	2002	2003	2004	2005	2006
1.45	1.35	1.73	2.08	2.00	1.54

**2. Total asset turnover ratio = Sales/total Assets**

2001	2002	2003	2004	2005	2006
0.79	0.75	0.84	0.97	0.92	0.84

**Explanation:** These two ratios indicate the efficiency of the firm to utilize assets to generate sales. From 2001 to 2004 both ratios increased but in 2005 & 2006 they decreased though both asset and sales increased. It happened for purchasing new assets for new subsidiary Square Yarns Limited (SYL). Though new assets have higher efficiency due to improved technology but for higher asset price these ratios decreased. So it can be concluded that firm's efficiency was not decreased.

**(B) Liquidity Analysis:**

**1. Current Ratio** = current assets / current liabilities

2001	2002	2003	2004	2005	2006
0.83	0.87	1.01	1.14	1.41	1.12

**Explanation:** It measures the ability of the firm to payout its current liabilities with current assets. The higher the ratio is better. From 2001 to 2005 this ratio increased that means liquidity position improved. But in 2006 it decreased because of higher increase in current liabilities because of additional borrowing for new subsidiary SYL.

**2. Quick Ratio** = (cash + marketable securities + A/R) / Current Liabilities

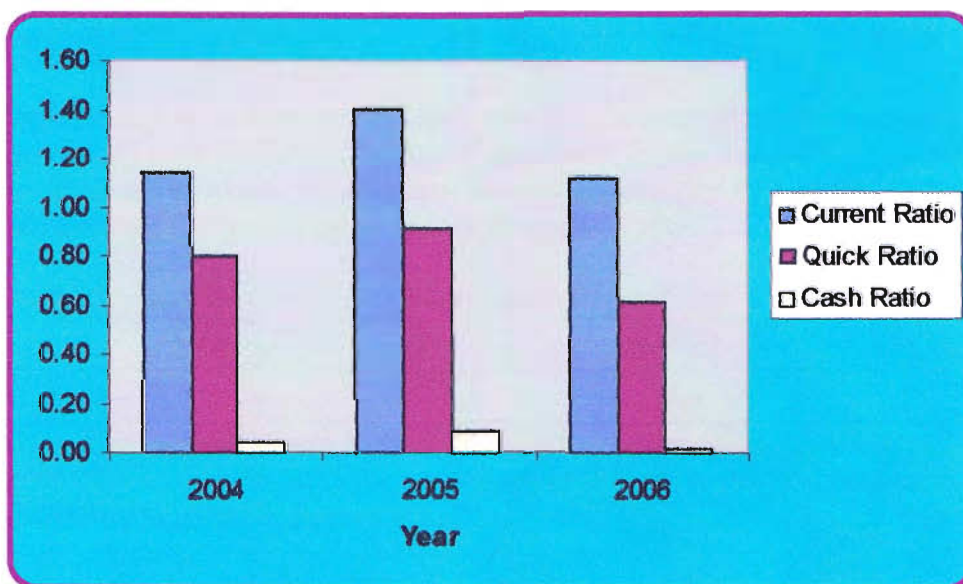
2004	2005	2006
0.80	0.91	0.61

**Explanation:** This ratio measures liquidity without relying on inventory and prepaid expenses. As inventory is least liquid asset and prepaid expense represent future non cash benefit. This ratio increased in 2005 but decreased in 2006 for increase in current liabilities because of additional borrowing for new subsidiary SYL.

**3. Cash Ratio** = (cash + marketable securities) / Current Liabilities

2004	2005	2006
0.04	0.09	0.01

**Explanation:** This is the better measure of liquidity only relying on cash and near cash assets. It indicates that for 1 Tk current liability the firm had only .04, .09 & .01Tk cash and near cash assets. This represents a very bad liquidity position.



**Explanation:** This graph summarizes above analysis and shows the liquidity position of the firm over 2004, 2005, & 2006, which was not well. The firm needs to increase its inventory turnover and cash or near cash assets to improve liquidity position.

**4. Operating Cycle = Average number of days inventory in stock + Average number of days receivable outstanding**

2004	2005	2006
184.11	189.98	203.68

**Explanation:** This ratio indicates that from purchase of raw materials to collection of money need 184.11, 189.98 & 203.68 days in 2004, 2005 & 206 respectively.

**5. Cash Cycle = Operating cycle – Payable Deferral Period**

2004	2005	2006
-52.71	27.51	50.14

**Explanation:** It measures the length the length of time between payment and collection. Shorter the cash cycle means money comes faster which is better. In 2004 cash cycle were -52.71 that indicate money collected earlier than payment. But in 2005 & 2006 it increased so time between payment and collection increased that was not a good sign for liquidity.

**(C) Long Term Debt & Solvency Ratio:**

**a) Debt to Asset Ratio = Total Debt/ Total Asset**

2001	2002	2003	2004	2005	2006
0.54	0.51	0.51	0.47	0.38	0.58

**Explanation:** This ratio measures how much assets the firm has to pay out debt. Lower this ratio indicates lower solvency risk. This ratio decreased from 2001 to 2005, and in 2006 it increased due to long term loan took for new subsidiary SYL. In 2006 the firm had 1 Tk asset for 0.58 Tk liabilities.

**b) Time Interest Earned Ratio = EBIT / Interest Expenses**

2001	2002	2003	2004	2005	2006
1.97	1.58	2.46	4.26	6.85	6.22

**Explanation:** It measures how much EBIT the firm had to pay out its interest expenses. Higher the ratio is better. It shows the level of protection for the creditors. From 2001 to 2005 this ratio increased that means the firm had better ability to pay its interest. But in 2006 this ratio slightly declined because of increase in debt to asset ratio.

**c) Capital Expenditure Ratio = CFO / Capital Expenditure**

2004	2005	2006
17.78	2.60	5.13

**Explanation:** This ratio measures how much cash flow from operation the firm had to carry out its capital expenditure. In 2005 this ratio decreased because the firm needed to incur huge capital expenditure to invest in Square Yarns Ltd.

**d) CFO to Debt = CFO/ Total Debt**

2004	2005	2006
0.77	0.43	0.17

**Explanation:** This ratio measures how much cash flow from operation the firm had to pay out its total debt. This ratio declined over 2004 to 2006 and they were lower than 1 indicates

that firm's CFO was not sufficient to pay out total debt and it had not more fund for additional capital expenditure.

### (D) Profitability Ratio:

#### # Return on Sales:

##### 1. Gross Margin = Gross Profit / Sales

2001	2002	2003	2004	2005	2006
19.27%	16.14%	17.39%	15.27%	22.72%	22.13%

**Explanation:** It measures the relationship between sales and COGS. Though sales increased this ratio varied over 2001 to 2006 for ups and downs in COGS.

##### 2. Margin Before Interest & Taxes = EBIT / Sales

2001	2002	2003	2004	2005	2006
17.11%	13.30%	14.53%	12.21%	19.48%	18.36%

**Explanation:** This ratio excludes the effect of capital structure and tax. From 2001 to 2004 this ratio decreased. But in 2005 & 2006 it increased because of increase in EBIT.

##### 3. Pretax margin = EBT/ Sales

2001	2002	2003	2004	2005	2006
8.41%	4.87%	8.62%	9.34%	16.64%	15.41%

**Explanation:** This ratio measures the profitability form operation including the effect of investment and financing. Pretax margin increased from 2001 to 2004. But it decreased in 2005 & 2006 because of increase in interest.

##### 4. Profit Margin = Net Income / Sales

2001	2002	2003	2004	2005	2006
8.41%	4.55%	7.98%	8.08%	10.69%	13.31%

**Explanation:** This ratio measures the profitability of the firm including the effect of investment, financing and taxes. This ratio increased from 2001 to 2006 except 2002. This indicates a very good profitability of the firm. In 2002 because of declining in export sales this ratio decreased.

#### # Return on Investment (Asset):

##### 1. Return on Asset (ROA) = EBIT/ Average Total Assets

2001	2002	2003	2004	2005	2006
13.59%	9.99%	12.21%	11.84%	18.02%	15.42%

**Explanation:** This ratio measures the efficiency of the firm to utilize its assets to generate sales. It shows overall return available for all capital providers. Though total asset increased every year, from 2001 to 2006 ROA varied every year. It may be happened due to ups and downs in COGS. In 2005 & 2006 ROA was higher than previous years. In 2006 it decreased due to loss occurred for fire.



## 2. Return on Equity (ROE) = Net income/ Average Shareholders' Equity

2001	2002	2003	2004	2005	2006
15.32%	7.10%	13.61%	14.72%	16.88%	19.70%

**Explanation:** This ratio measures return only for shareholders. From 2001 to 2006 this ratio increased due to both increase in net income and equity.

## (E) Operating Leverage & Financial Leverage:

### 1. Operating Leverage Effect (OLE) = Contribution / Operating Income

2001	2002	2003	2004	2005	2006
2.19	3.18	1.92	1.56	1.30	1.33

**Explanation:** As OLE was more than 1 in every year from 2001 to 2006, the firm had some operating leverage. That means certain percentage change will generate more increase in operating income. Such as in 2006, 1% change in sales would generate 1.33% change in operating income.

### 2. Financial Leverage Effect (FLE) = Operating Income / Net Income

2001	2002	2003	2004	2005	2006
1.04	1.12	1.13	1.21	1.63	1.25

**Explanation:** As this ratio was greater than 1, the firm had some fixed financial cost and financial leverage from 2001 to 2006. Such as in 2005 if operating income increased by 1% net income would increase by 1.63%.

### 3. Total Leverage Effect (FLE) = Contribution / Net Income or, OLE \* FLE

2001	2002	2003	2004	2005	2006
2.29	3.54	2.18	1.89	2.13	1.66

**Explanation:** The firm had very good total leverage during 2001 to 2006. It indicates that it has both fixed operating cost and fixed financial cost. That means some changes in sales will cause greater change in net income. Such as in 2005 1% change in sales would generate 2.13% increase in net profit.

## (F) Earning Per Share (EPS)

**EPS** = Earnings available to common share holders / Common share outstanding

2001	2002	2003	2004	2005	2006
6.94	3.23	6.67	7.17	8.38	10.17

**Explanation:** EPS reflects the basic earning power of the company. From 2001 to 2006 EPS increased. In 2002 it decreased because of decrease in sales. In 2006 it increased due to increase in net income and proportion of debt.

**Price Earning Ratio** = Market price per share / EPS

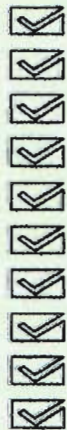
2002	2003	2004	2005	2006
8.32	6.47	19.29	9.75	7.43

**Explanation:** It shows how much investors are willing to pay per Tk of profit. In 2004 it was highest due to increase in EPS and market price of share.





# CHAPTER SIX



*COMMONSIZE Analysis*

**COMMON SIZE  
INCOME STATEMENT**

**COMMON SIZE  
BALANCE SHEET**

### COMMON SIZE INCOME STATEMENT

	2004	2005	2006	2004	2005	2006
Sales	2459200684	2390978521	2620965931	100.00%	100.00%	100.00%
COGS	2083702523	1847818461	2041065393	84.73%	77.28%	77.87%
Gross Profit	375498161	543160060	579900538	15.27%	22.72%	22.13%
Operating Expenses	63866211	57551911	65329725	2.60%	2.41%	2.49%
Administrative overhead	40898449	51210670	58549197	1.66%	2.14%	2.23%
Loss due to fire			14663944			0.56%
Income From Central Operation	311631950	485608149	499906869	12.67%	20.31%	19.07%
Other Income	146362	61069	1606504	0.01%	0.001%	0.06%
EBIT	311778312	485669218	501513373	12.68%	20.31%	19.13%
Interest Expenses	70530935	67966406	77350086	2.87%	2.84%	2.95%
Earning Before W.P.P & W.F	241247377	417702812	424163287	9.81%	17.47%	16.18%
Allocation for WPP & WF	11487970	19890610	20198252	0.47%	0.83%	0.77%
EBT	229759407	397812202	403965035	9.34%	16.64%	15.41%
Provision for Taxes	31069729	59864394	55131582	1.26%	2.50%	2.10%
Provision for Deferred Taxes		82453478			3.45%	
Net Income	198689678	255494330	348833453	8.08%	10.69%	13.31%

Common size Income Statement expresses every component as a percentage of sales.

#### Explanation:

- COGS declined from 2004 to 2006. In 2006 COGS to sales ratio was 77.87% which is lowest than previous two years, though sales was highest. Among all the expenses COGS had higher ratio to sales that means COGS was the major expense.
- The ratio of gross profit to sales was highest in 2006 because of increase in sales and decrease in COGS.
- Though operating expense decreased in 2006 income from operation to sales ratio declined because of loss due to fire.
- Though other income was highest in 2006, EBIT to sales ratio declined in 2006 because of declining income from operation.
- Interest expense to sales ratio was highest in 2006 because of additional financing for new subsidiary.
- EBT to sales ratio was lowest in 2004 and highest in 2005. In 2006 EBT to sales ratio declined because of increase in interest and decrease in EBIT.
- In 2005 provision for deferred taxes to sales ratio was 3.45% which helped to increase net income in that year.
- Net income to sales ratio was highest in 2006 though EBIT and EBT to sales ratio decreased. It happened because of 9.62% increase in sales in that year.

**Changes in different components compared to the base year 2004**

	<b>2004</b>	<b>2005</b>	<b>2006</b>
Sales	100.00%	-2.77%	6.58%
COGS	100.00%	-11.32%	-2.05%
Gross Profit	100.00%	44.65%	54.43%
Operating Expenses	100.00%	-9.89%	2.29%
<i>Administrative overhead</i>	100.00%	25.21%	43.16%
Loss due to fire	100.00%		
Income From Central Operation	100.00%	55.83%	60.42%
Other Income	100.00%	-58.28%	997.62%
EBIT	100.00%	55.77%	60.86%
Interest Expenses	100.00%	-3.64%	9.67%
Earning Before W.P.P& W.F	100.00%	73.14%	75.82%
Allocation for WPP & WF	100.00%	73.14%	75.82%
EBT	100.00%	73.14%	75.82%
Provision for Taxes	100.00%	92.68%	77.44%
Net Income	100.00%	28.59%	75.57%

**Explanation:**

- Sales increased in 2006 by 6.58% and decreased in 2005 by -2.77% compared to base year because of declining in export sales.
- Gross profit increased in both 2005 & 2006 because of declining in COGS.
- Though operating expense increased in 2006 income from operation was highest due to higher gross profit.
- Both EBIT & EBT increased in 2005 & 2006. But they were highest in 2006.
- Net income was increased by 28.59% and 75.57% in 2005 & 2006 respectively compared to base year.

## Common Size Balance Sheet

	2004	2005	2006	2004	2005	2006
Cash & cash equivalents	46836462	88482770	17256542	1.85%	3.42%	0.45%
Advances, Deposits, & Prepayments	65364701	58437449	64616226	2.58%	2.26%	1.67%
Account receivables	834989837	756736173	821199524	32.97%	29.27%	21.20%
Inventories	405449809	487753824	641390997	16.01%	18.87%	16.56%
<b>CURRENT ASSET</b>	<b>1352640809</b>	<b>1391410216</b>	<b>1544463289</b>	<b>53.40%</b>	<b>53.82%</b>	<b>39.87%</b>
Long term investments		10000000		0.00%	0.39%	0.00%
Net Property, land & equipment	1180203675	1183767259	2329743482	46.60%	45.79%	60.13%
<b>FIXED ASSETS</b>	<b>1180203675</b>	<b>1193767259</b>	<b>2329743482</b>	<b>46.60%</b>	<b>46.18%</b>	<b>60.13%</b>
<b>TOTAL ASSETS</b>	<b>2532844484</b>	<b>2585177475</b>	<b>3874206771</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
Short Term Loan	353286394	197314717	613068426	13.95%	7.63%	15.82%
Account & Notes Payable	731234607	675107798	709934335	28.87%	26.11%	18.32%
Provision for Income Taxes	50180471	54577377	55186068	1.98%	2.11%	1.42%
Other Current Liabilities	48686409	62212872	92797627	1.92%	2.41%	2.40%
<b>CURRENT LIABILITIES</b>	<b>1183387881</b>	<b>989212764</b>	<b>1470986456</b>	<b>46.72%</b>	<b>38.26%</b>	<b>37.97%</b>
Long term debt			551855361	0.00%	0.00%	14.24%
Non controlling interest			500000	0.00%	0.00%	0.01%
Deferred Income taxes		82453478	79959968	0.00%	3.19%	2.06%
<b>TOTAL LIABILITIES</b>	<b>1183387881</b>	<b>1071666242</b>	<b>2103301785</b>	<b>46.72%</b>	<b>41.45%</b>	<b>54.29%</b>
Share Capital	277090000	304799000	342898870	10.94%	11.79%	8.85%
General Reserve & Surplus	732695206	869040836	1088334719	28.93%	33.62%	28.09%
Tax Holiday Reserve	339671397	339671397	339671397	13.41%	13.14%	8.77%
<b>TOTAL EQUITY</b>	<b>1349456603</b>	<b>1513511233</b>	<b>1770904986</b>	<b>53.28%</b>	<b>58.55%</b>	<b>45.71%</b>
<b>TOTAL LIABILITIES &amp; EQUITIES</b>	<b>2532844484</b>	<b>2585177475</b>	<b>3874206771</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Common size balance sheet expresses every component as a percentage of total asset or total liability and equity.

### Explanation:

- Current asset to total asset ratio was highest in 2005 and lowest in 2006, because of declining in cash & cash equivalents to total asset ratio.



- Fixed asset to total asset ratio was highest in 2006, because of purchase of plant & machinery for new subsidiary.
- Short term loan to total asset ratio increased in 2006 but as cash & cash equivalents declined so the firm may face some liquidity problem.
- Current liabilities to total asset ratio lowest in 2006 because of declining in account payable to total asset ratio.
- There was no Long term debt in 2004 & 2005. In 2006 long term debt to total asset ratio was 14.24% because of financing for new subsidiary.
- Compared to total asset share capital & general reserve lower in 2006 than 2004 & 2005.

**Changes in different components compared to the base year 2004**

	<b>2004</b>	<b>2005</b>	<b>2006</b>
Cash & cash equivalents	100.00%	88.92%	-63.16%
Advances, Deposits, & Prepayments	100.00%	-10.60%	-1.15%
Account receivables	100.00%	-9.37%	-1.65%
Inventories	<b>100.00%</b>	<b>20.30%</b>	<b>58.19%</b>
<b>CURRENT ASSET</b>	<b>100.00%</b>	<b>2.87%</b>	<b>14.18%</b>
<b>FIXED ASSETS</b>	<b>100.00%</b>	<b>1.15%</b>	<b>97.40%</b>
<b>TOTAL ASSETS</b>	<b>100.00%</b>	<b>2.07%</b>	<b>52.96%</b>
Short Term Loan	<b>100.00%</b>	<b>-44.15%</b>	<b>73.53%</b>
Account & Notes Payable	100.00%	-7.68%	-2.91%
Provision for Income Taxes	100.00%	8.76%	9.98%
Other Current Liabilities	100.00%	27.78%	90.60%
<b>CURRENT LIABILITIES</b>	<b>100.00%</b>	<b>-16.41%</b>	<b>24.30%</b>
<b>TOTAL LIABILITIES</b>	<b>100.00%</b>	<b>-9.44%</b>	<b>77.74%</b>
Share Capital	100.00%	10.00%	23.75%
General Reserve & Surplus	100.00%	18.61%	48.54%
Tax Holiday Reserve	100.00%	0.00%	0.00%
<b>TOTAL EQUITY</b>	<b>100.00%</b>	<b>12.16%</b>	<b>31.23%</b>



**Explanation:**

-3

- Compared to base year in 2006 cash & cash equivalents, account receivables decreased, but inventory increased substantially. This a indication that firm's liquidity position may decline.
- Current asset increased in 2006 compared to base year only for increasing in inventory.
- Fixed assets substantially increased in 2006 compared to base year for purchase of new machinery.
- Current liabilities decreased in 2005 but current asset increased. So at that year liquidity position was good. But in 2006 current liabilities increased more than current assets that mean liquidity position declined.
- Total liabilities increased in 2006 because of additional financing for new subsidiaries.
- Total equity increased in 2006 compared to base year due to increase in general reserve.



# CHAPTER SEVEN

<input checked="" type="checkbox"/>	<i>TREND Analysis</i>
<input checked="" type="checkbox"/>	
<input checked="" type="checkbox"/>	<u>Trend of</u>
<input checked="" type="checkbox"/>	<u>Sales</u>
<input checked="" type="checkbox"/>	<u>Net Profit After Tax</u>
<input checked="" type="checkbox"/>	<u>EPS</u>
<input checked="" type="checkbox"/>	<u>Shareholders' Equity</u>
<input checked="" type="checkbox"/>	<u>ROE</u>
<input checked="" type="checkbox"/>	
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## Trend Analysis by following the Least Square Method

By following the Least Square Method Trend will be calculated and Regression line will be derived for Sales, Net Profit after Tax, Earnings Per Share (EPS), Shareholders' Equity Per Share and Return on Equity (ROE). Through trend analysis the financial performance of the Company can be evaluated. Trend analysis gives a clue whether the financial performance of the Company is likely to improve or deteriorate.

The equation for Regression line is

$$Y = a + bt$$

Here, Y is a dependent variable

t is an independent variable

a is Y intercept

b is slope of the straight line

b may be zero, positive or negative depending on the relationship between Y and t. if b is positive that implies that Y will move in the same direction with t.

By using the derived regression equation forecasted values of Sales, Net Profit after Tax, Earnings Per Share, Shareholders' Equity Per Share and Return on Equity is calculated for the year 2007 to 2010.

Although the regression line is a useful summary of the relationship between two variables, the value of the slope and intercept alone do little to indicate how well the line actually fits the data. Thus a goodness of fit is needed to come to a conclusion, how good the estimated regression line is. To find out the goodness of fit of the regression equation Coefficient of Determination ( $r^2$ ) is calculated. The value of  $r^2$  is between 0 and 1. Value closer to 1 indicates better fitting of estimated regression line. I have done all the calculations by using Excel.

## Trend of Sales

Coefficient of Determination, r <sup>2</sup>	0.7327
Correlation Coefficient, r	0.855978815
slope, b	139503400
Y Intercept, a	1751697933

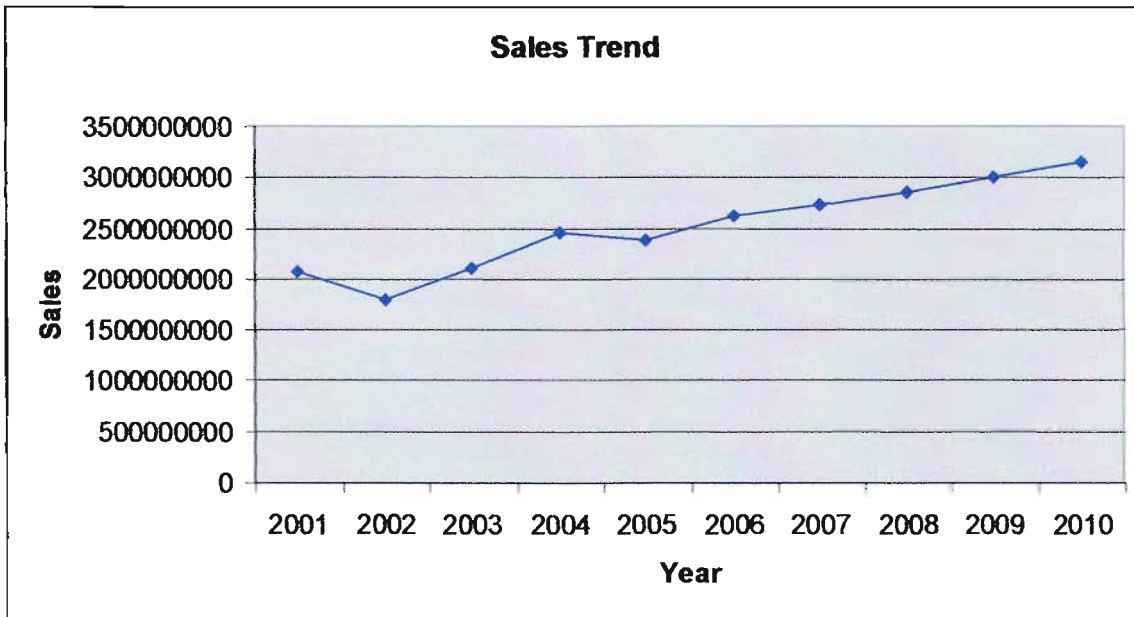
### Regression Line:

$$Y = a + bt$$

$$Y = 1751697933 + 139503400t$$

Year	Year (t)	Sales (Y) TK
2001	1	2076925000
2002	2	1789018000
2003	3	2102670000
2004	4	2459201000
2005	5	2390979000
2006	6	2620966000
2007	7	2728221733 (Forecasted)
2008	8	2867725133 (Forecasted)
2009	9	3007228533 (Forecasted)
2010	10	3146731933 (Forecasted)

**Sales Trend**



**Explanation:** From regression equation it is found that b is positive, which implies sales (Y) moves in the same direction with Year (t). The correlation coefficient is 0.86 that means there is a strong correlation between sales and year. From forecasted sales and graph it is found that there is an upward trend in sales. The coefficient of determination is 0.7327 that means 73.27% change in sales (Y) is accounted for its linear relationship with year (t).

### Trend of Net Profit After Tax

Coefficient of Determination, r <sup>2</sup>	0.7089
Correlation Coefficient, r	0.841959633
slope, b	40670542.86
Y Intercept, a	62167600

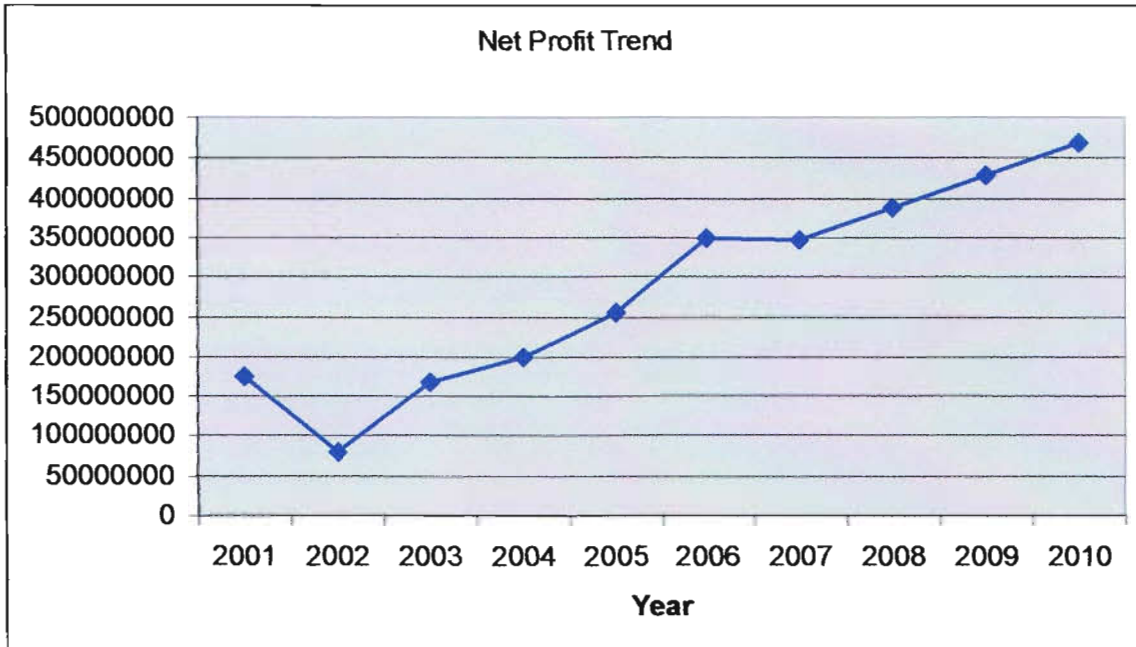
**Regression line:**

$$Y = a + bt$$

$$Y = 62167600 + 40670542.86t$$

Year	Year (t)	Net Profit (Y) TK
2001	1	174723000
2002	2	81453000
2003	3	167894000
2004	4	198690000
2005	5	255494000
2006	6	348833000
2007	7	346861400 (Forecasted)
2008	8	387531943 (Forecasted)
2009	9	428202486 (Forecasted)
2010	10	468873029 (Forecasted)

**Net Profit Trend**



**Explanation:** From regression equation it is found that b is positive, which implies Net Profit (Y) moves in the same direction with Year (t). The correlation of coefficient is 0.84 that means there is a strong correlation between Net Profit and year. From forecasted Net Profit and graph it is found that there is an upward trend in Net Profit. The coefficient of determination is 0.7089 that means 70.89% change in Net Profit (Y) is accounted for its linear relationship with year (t).



### Trend of EPS

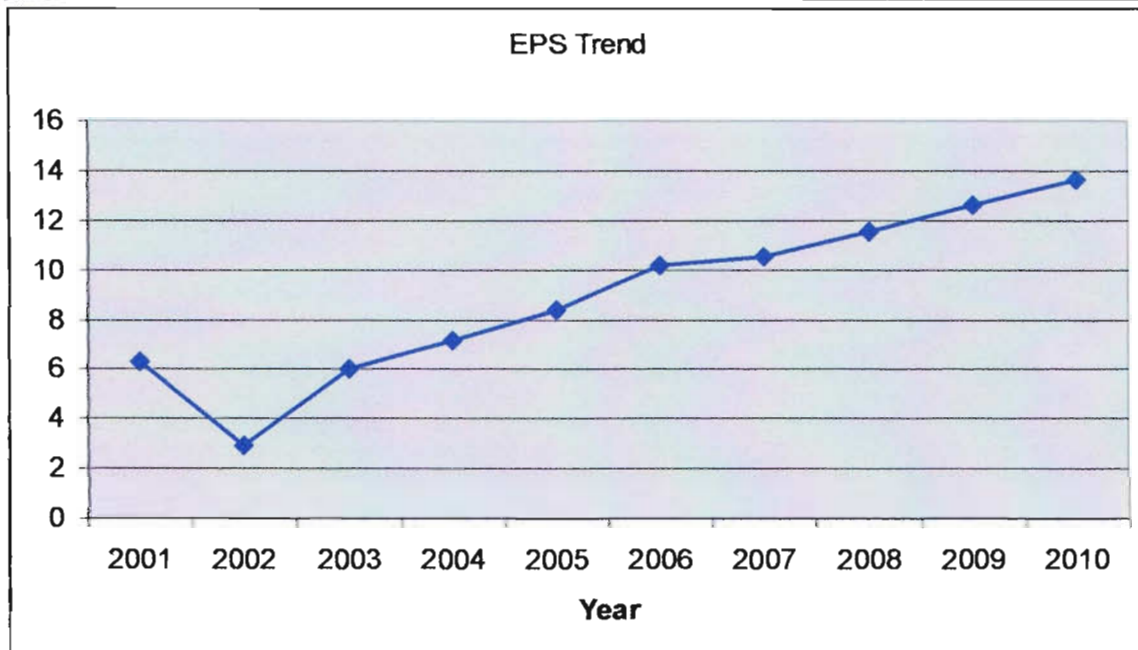
Coefficient of Determination, r <sup>2</sup>	0.6496
Correlation Coefficient, r	0.805977229
slope, b	1.049428571
Y Intercept, a	3.165333333

**Regression line:**

$$Y = a + bt$$

$$Y = 3.1653 + 1.04942t$$

Year	Year (t)	EPS (Y)
2001	1	6.31
2002	2	2.94
2003	3	6.06
2004	4	7.17
2005	5	8.38
2006	6	10.17
2007	7	10.51 (Forecasted)
2008	8	11.56 (Forecasted)
2009	9	12.61 (Forecasted)
2010	10	13.66 (Forecasted)



**Explanation:** From regression equation it is found that b is positive, which implies EPS (Y) moves in the same direction with Year (t). The correlation coefficient is 0.81 that means there is a strong correlation between EPS and year. From forecasted EPS and graph it is found that there is an upward trend in EPS. The coefficient of determination is 0.6496 that means 64.96% change in EPS (Y) is accounted for its linear relationship with year (t).

### Trend of Shareholders' Equity Per Share

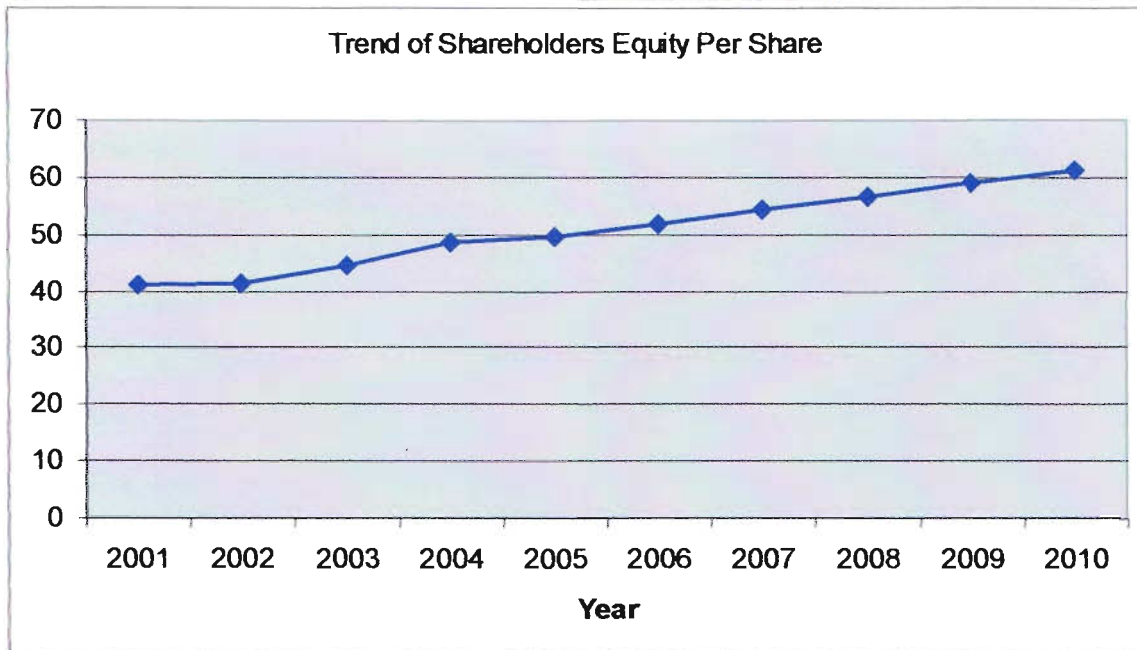
Coefficient of Determination, r <sup>2</sup>	0.9540
Correlation Coefficient, r	0.976733278
slope, b	2.326
Y Intercept, a	38.04066667

**Regression line:**

$$Y = a + bt$$

$$Y = 38.0406 + 2.326t$$

Year	Year (t)	Shareholders' Equity per share (Y)
2001	1	41.17
2002	2	41.38
2003	3	44.53
2004	4	48.7
2005	5	49.66
2006	6	51.65
2007	7	54.32 (Forecasted)
2008	8	56.65 (Forecasted)
2009	9	58.97 (Forecasted)
2010	10	61.30 (Forecasted)



**Explanation:** From regression equation it is found that b is positive, which implies Shareholders' Equity Per Share (Y) moves in the same direction with Year (t). The correlation coefficient is 0.976 that means there is a strong correlation between Equity and year. From forecasted Equity and graph it is found that there is an upward trend in Equity. The coefficient of determination is 0.9540 that means 95.40% change in Equity (Y) is accounted for its linear relationship with year (t).

### Trend of ROE

Coefficient of Determination, r <sup>2</sup>	0.4401
Correlation Coefficient, r	0.663395244
slope, b	0.014957143
Y Intercept, a	0.0932

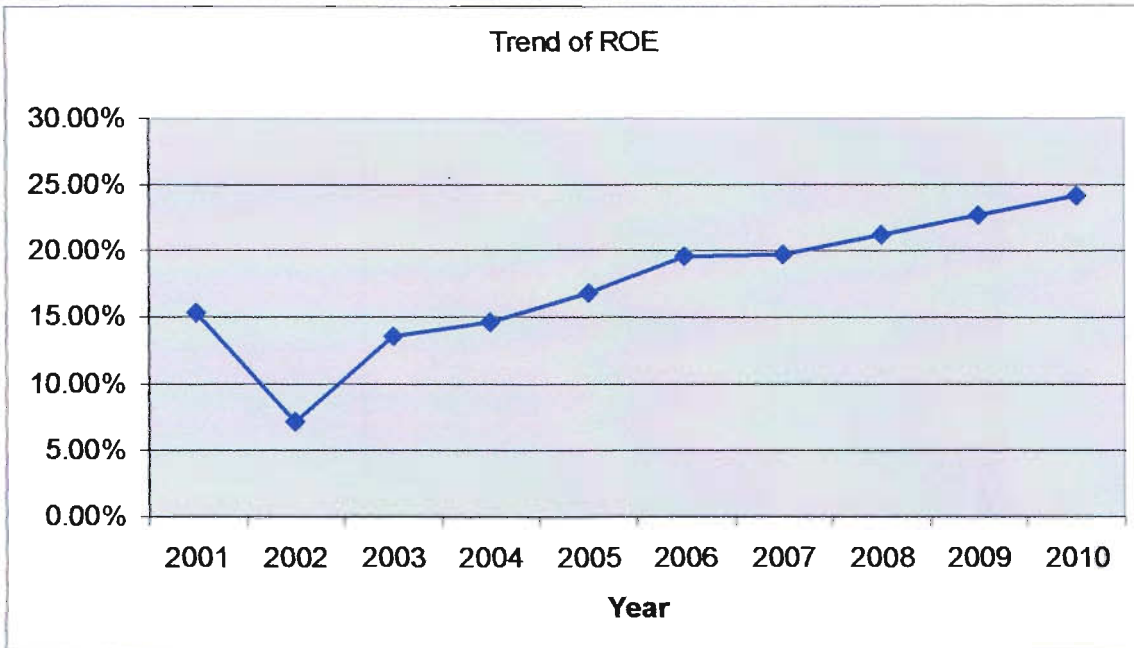
**Regression Line:**

$Y = a + bt$

$Y = 0.0932 + 0.014957t$

Year	Year (t)	ROE (Y)
2001	1	15.32%
2002	2	7.10%
2003	3	13.61%
2004	4	14.72%
2005	5	16.88%
2006	6	19.70%
2007	7	19.79% (Forecasted)
2008	8	21.29% (Forecasted)
2009	9	22.78% (Forecasted)
2010	10	24.28% (Forecasted)

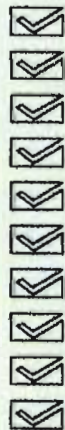
Trend of ROE



**Explanation:** From regression equation it is found that b is positive, which implies ROE (Y) moves in the same direction with Year (t). The correlation coefficient is 0.66 that means there is a moderate correlation between ROE and year. From forecasted ROE and graph it is found that there is an upward trend in ROE. The coefficient of determination is 0.4401 that means 44.01% change in ROE (Y) is accounted for its linear relationship with year (t).



# CHAPTER EIGHT

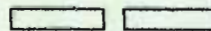


DIVIDEND POLICY

RECOMMENDATION

CONCLUSION

BIBLIOGRAPHY



## Dividend Policy

From the analysis of components of the financial statements of Square Textiles Ltd, I have come up with some findings regarding their dividend policy. According to my findings Square Textiles Ltd is currently following '**Residual Theory of Dividends**' and '**Regular Dividend Policy**'.

**Residual theory of dividends:** It states that dividend paid by a firm should be the amount left over after all acceptable investment opportunities have been undertaken. It means firm will invest in those investment opportunities where rate of return is greater than cost of capital and after that dividend will be paid from the remaining amount.

**Regular dividend policy:** It is a dividend policy based on payment of a fixed amount of dividend in each period. It provides owners with generally positive information indicating that the firm is okay and minimizing their uncertainty.

The reasons behind our findings are:

- Both net income after tax and retained earnings were increasing at an increasing rate from 2002 to 2006 but cash dividend paid remained same Tk.3 per share in each period.
- In each period from 2001 to 2006 the firm invested a substantial amount in various fixed assets, plant and machinery and civil construction. But in 2005 it invested a huge amount of about Tk.10 million in Square Yarns Ltd.
- EPS was decreased in 2002 for decrease in net income but it was gradually increasing from 2003 to 2006 with the increase in net income.
- Though market price was increasing at an increasing rate from 2002 but it was increased substantially in 2004 by 220.9% and became Tk.138.3. It might happen in response to increased dividend and other informational contents. In that year, Square Textiles declared 30% cash dividend with 10% bonus share. Though net income and dividend were increased in 2005 & 2006, market price was decreased. It might happen because of other reasons such as overall conditions of the Bangladesh capital market.

From the above points, it is clear that the firm was having huge amount of net income as well as retained earnings and the firm was using this amount mainly for reinvestment purpose, not for paying high dividend. So, it indicates that the firm is following residual theory of dividends. But the firm might acknowledge the informational content as it paid fixed cash dividend and in addition to this paid stock dividend in year 2003 to 2006. As the firm was paying fixed cash dividend of Tk.3 per share in each period, we can say that it is following regular dividend policy.



## Major Findings and Recommendation

- Though total sales increased over the years, local sales not increased that much. In 2006 local sales decreased. As Square has a very strong brand image and reputation, the firm should use this effectively to increase local market share. Manufacturing competence and good reputation should be enhanced to counter the domestic competition.
- Local selling price increased by 23.47% during 2006 over 2005. This may happened due to increase in raw material cost, packing cost, spare parts cost. So the firm should cautious about their production cost. They may do their value chain analysis properly. They should find out major cost drivers and shout try to control them. Though inflation prevails in the country which leads to increase raw materials cost, the firm should try to find out least costly sources of raw materials. The firm should concentrate on lowering manufacturing costs by improved technology.
- Operating expense increased in 2006 due to increase in administrative overhead. The firm should try to control these operating expenses otherwise these will lead to lower their operating profit.
- To contribute more to the net profit after tax the firm should effectively and efficiently manage their production, operating, and financing expenses.
- Although firm's retained earnings increased heavily, their reinvestment not increased that much. The firm should utilize these funds. They can go for both more short term and long term investments. They should evaluate different alternatives before investment. As wealth maximization is the prime goal of a Company, the firm should invest in profitable alternatives to maximize their wealth.
- Firm's quick assets decreased substantially in 2006. Cash and cash equivalents decreased by 80.49% in 2006 over 2005 and inventories increased by 31.50% in 2006 over 2005. This is not a good sign for liquidity because inventory is least liquid current asset. As firm's short term loan increased by 210.71% in 2006 over 2005 and their quick asset decreased, the firm may face liquidity problem. From ratio analysis it is found that the firm's current ratio, quick ratio and cash ratio declined in 2006. It is an indication of the firm's poor liquidity condition. So the should try to increase their inventory turnover which was declined in 2006. More inventory also increase inventory cost. So firm should

maintain their optimal inventory level. They may practice just in time and pull inventory when needed.

- The firm should reduce their payable turnover. They can take the advantage where possible to delay the payment and use the fund for short term investment.
- The firm should maintain optimal capital structure to get the advantage of leverage. The firm should try to raise fund from least costly sources. They should review the level of debt they are maintaining. Because higher debt increases higher bankruptcy risk and using no debt also be costly.
- Firm's cash flow from operation decreased in 2006 and not sufficient to payout total debt. As a result they firm had not additional fund for capital expenditure.
- Firm's total asset turnover decreased in 2006 as a result their return on asset also decreased. So the firm should utilize their assets efficiently to increase return on assets.
- All the departments of the firm such as production, manufacturing, finance, marketing, supply chain should be well coordinated for efficient performance.
- To sustain comfortably in the competitive market, the firm should go for diversification such as product and market diversification.

## Conclusion

Although the firm had some problems in some areas these were not significant enough. The firm has good growth prospect. The sequence of my analysis suggests that the firm is performing moderately in an efficient manner. The firm is performing well to achieve long term corporate goal. The financial performance evaluation depicts that the firm is in good financial position and the financial condition is expected to improve in future. The activities of the firm are expanding over the years. Their export in foreign market is increasing. They invested in new subsidiary Square Yarns Ltd. which expected to contribute to the firm's profit and growth. The firm's prospects provide them competitive advantage over others. The firm's EPS, share price increased in 2007 that reflects that the firm will do well in future. From my trend analysis it is found that the firm's sales, profit, shareholders' equity, EPS, ROA have upward trend. I hope that the management of the firm will take right decisions and try to maximize the shareholders wealth, and sustain the firm's success in the future.

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