Project on Financial Statement Analysis of the Textile Industry Of Bangladesh

Prepared for:

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East West University

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November 2011

Financial Statement Analysis
East West University

Dear Student

Letter of Authorization

I, here by, authorize you to prepare a comprehensive report on the topic "Financial Statement Analysis of the Textile Industry of Bangladesh", using all that has been taught throughout. You are to present an integrated and coordinated report on 22 December 2011. This is to enhance your skills at applying theoretical knowledge via this project. Any queries are most welcomed.

Thanking You

M. Sayeed Alam

Syaba Tarannum Quader

22December 2011

Deputy Director, CCC & Assistant Professor
Department of Business Administration
East West University
43, Mohakhali C/A, Dhaka-1212

Dear Sir

Letter of Transmittal

I am very glad to submit the given assignment on "Financial Statement Analysis of the Textile Industry of Bangladesh".

I would like to inform you that our report focuses on the trends each textile industry sought for the past five years. I have garnered all information from the annual reports of respective companies. Also, I have presented forth, a complete industry analysis comprising of the 6 textile companies assigned to me. I am presenting the report to you for your consideration.

I have given my best efforts in preparing this report. I hope that you will consider it and oblige thereby.

Thanking You

Syaba Tarannum Quader
2008-1-10-063

Executive Summary

I have been taught extensively about the importance ad the techniques of financial statement analysis. As such, this report required me to analyze the financial statement of 6 companies of the textile industry.

This report is based on six companies of the Textiles Industry of Bangladesh: **HR Textiles Ltd, Dandy Dyeing Ltd, Monno Fabrics, Saiham Textile, Bextex Ltd.** My purpose was to find the real life implications of the study materials. This report is divided into two parts.

Firstly, I focused on the individual trend of the companies in terms of various ratio measurements to evaluate their performance for the last 5 years, 2006 to 2010. Here, I showed whether the companies are following in particular trend or not. All the six companies are evaluated separately on the basis of four dimensions of ratio analysis i.e. Activity Analysis, Liquidity Analysis, Long-term Debt and Solvency Analysis and Profitability Analysis.

Secondly, I provided the Industrial Analysis. Here I have compared together all the information acquired from the six companies. My focus and medium of comparison was based on the ratios of the above mention four dimensions. Based on these comparisons I tried to find out the industrial trend of the Textile Industry of Bangladesh.

Thus this report provided me with a bird's eye view of the financial statement analysis of the six stated companies of the textile industry of Bangladesh.

Table of Content

1.1 Origin

This report was assigned to us by our course instructor, Md. Lutfur Rahman, as partial fulfillment of the Financial Statement Analysis course objective. It was instructed that we do a comparative analysis of the individual textile companies, and then an industry analysis. We have analyzed the annual reports of the respective textile companies assigned – HR Textiles Ltd, Bextex Ltd, Monno Fabrics, Saiham Textile, Dandy Dyeing ad Apex Knitting and Spinning Mills Ltd.

1.2 Objective

The general objective of this report is to display our finding out about the financial position of textile companies individually and that of the entire textile industry. We have dissected the annual reports and tried to display the trend in their financial ratios.

1.3 Scope

We have displayed graphs and charts to analyze our findings. We have made the report garnering information mostly from respective companies' annual reports. We analyzed their Balance Sheet, Income Statement, Cash flow Statement and respective notes to retrieve required data to display the requirement of the objective of the report.

1.4 Methodology

We have collected information from both secondary source-annual reports. We have mostly depended on the companies' annual reports to garner the information.

1.5 Limitations

It was very difficult gathering annual reports of the all five years. The entire process of garnering the reports was the most time consuming as it was very difficult to retrieve them due to lack of availability.

2.0 Ratio Analysis

Ratio Analysis is a form of Financial Statement Analysis that is used to obtain a quick indication of a firm's financial performance in several key areas. It is a tool possesses several important features for example to form trend analysis to identify areas where performance has improved or deteriorated over time.

Its effectiveness is limited by the distortions which arise in financial statements due to such things as Historical Cost Accounting and inflation. Therefore, Ratio Analysis should only be used as a first step in financial analysis, to obtain a quick indication of a firm's performance and to identify areas which need to be investigated further.

Ratios are very useful as they briefly summarize the result of detailed and complicated computations. With reference to the textile industries, we have computed the ratios, relevant to indicate its current position and trends related to it.

Theoretical Discussion

Activity Ratio:

Activity ratios measure company sales per another asset account—the most common asset accounts used are accounts receivable, inventory, and total assets. It basically shows the relationship between the level of operation and level of assets. The higher the ratio generally indicates:

- More sales was generated from current asset
- Less assets were required to generate current sales.

Activity ratios measure the efficiency of the company in using its resources. It can be measured by the following ratios:

Inventory Turnover Ratio:

The best measure of inventory utilization is the inventory turnover ratio (inventory utilization ratio). Using the cost of goods sold in the numerator is a more accurate indicator of inventory turnover, and allows a more direct comparison with other companies, since different companies would have different markups to the sale price, which would overstate the actual inventory turnover

$$InvetoryTurnoverRatio = \frac{CostofGoodsSold}{AverageInvetory} \qquad \frac{365}{InventoryTurnoverRatio}$$

For a company to be profitable, it must be able to manage its inventory, because it is money invested that does not earn a return. The higher the ratio means the inventory is not idle and does not pile up, completing the process more quickly.

Receivables Turnover Ratio:

Accounts receivable is the total amount of money due to a company for products or services sold on an open credit account. The accounts receivable turnover shows how quickly a company collects what is owed to it.

$$ReceivablesTurnover = \frac{Sales}{Average\ Receivables} \qquad \frac{365}{ReceivablesTurnoverRatio}$$

The higher the ratio means the firms collects the receivables more frequently.

Payables Turnover Ratio:

Payables Turnover Ratio dictates how long it takes for the company to pay its own suppliers for the goods it receives. Days Payable and represents the average length of time between the date inventory is received from suppliers and when it actually pays the supplier for the merchandise.

$$PayablesTurnover = \frac{Purchase}{AveragePayable} \qquad \frac{365}{PayableTurnoverRatio}$$

The lower the ratio, the better because it indicates, more time is received in paying off the payables. As such credit flexibility is available.

Total Asset Turnover Ratio:

The total asset turnover measures the return on each dollar invested in assets and is equal to the net sales. It shows how much revenue is generated for each dollar invested in assets.

$$TotalAssetTurnover = \frac{Sales}{TotalAsset}$$

Fixed Asset Turnover Ratio:

It shows how much revenue is generated for each dollar invested in fixed assets. Thus is reflects the level of efficiency in utilizing fixed assets in a company.

$$FixedAssetTurnover = \frac{Sales}{FixedAsset}$$

Limitations of Fixed/Total Asset Turnover ratio:

- Company / Product Life cycle: Turnover ratio depends on which stage of the life cycle the company / product is in. A company in the introductory stage will generally have a lower ratio than a company in the growth stage. This does not mean that the prior company is not operating efficiently; it is so due to its positioning the life cycle.
- Timing of asset Purchase: If a new asset is acquired, the ratio will decrease significantly but this does not mean that the company is not operating efficiently. And it may be the denominator is low due to its highly depreciated value. Neither decrease nor increase is due to operational efficiency.
- Purchase of new asset: purchase of new asset invariably decreases the ratio (as the denominator increases) but this does not due to operational inefficiency.

Liquidity Ratio:

Liquidity ratio. expresses a company's ability to repay short-term creditors out of its total cash. It shows the number of times short-term liabilities are covered by cash. If the value is greater than 1.00. it means fully covered. It is a major measure of financial health.

Current ratio:

The current ratio is the most basic liquidity test. It signifies a company's ability to meet its short-term liabilities with its short-term assets.

$$CurrentRatio = \frac{CurrentAsset}{CurrentLiability}$$

A current ratio greater than or equal to one indicates that current assets should be able to satisfy near-term obligations. A current ratio of less than one may mean the firm has liquidity issues. Neither a (too) high ratio nor (too) low ratio is favorable.

Quick Ratio:

The quick ratio is a tougher test of liquidity than the current ratio. It eliminates certain current assets such as inventory and prepaid expenses that may be more difficult to convert to cash. Thus ratio basically indicates the firm's ability to pay off current liabilities without depending on inventory or prepaid expenses.

$$QuickRatio = \frac{Cash + MarketableSecurities + Accounts\,\mathrm{Re}ceivables}{CurrentLiability}$$

Cash Ratio:

The cash ratio is the most conservative liquidity ratio of all. It only measures the ability of a firm's cash, along with investments that are easily converted into cash, to pay its short-term obligations. Higher cash ratio generally means the company is in better financial shape.

$$CashRatio = \frac{Cash + MarketableSecurities}{CurrentLiability}$$

Cash cycle:

Cash cycle captures the interrelationship between sales, collections and trade credit. Cash cycle is the appropriate measures to identify the time period, which is tied up with the operation of a company. **Shorter the cash cycle of a firm is, more efficient it is in managing its operations** and cash. Longer the cycle is, less efficient and increasing financial cost is indicated. **If the cash cycle of a firm is negative, it indicates the firm is collecting cash even before it has sold its products.**

$$CashCycle = No.OfDaysInventoryInStock + No.OfDayReceivablesRemainOutstanding - No.OfDaysPayableOutstanding$$

Long Term Debt & Solvency Ratio:

The long-term financial soundness of any business can be judged by its long-term creditors by testing its ability to pay interest charges regularly and its ability to repay the principal as per schedule.

Debt-Total Capital ratio:

$$\text{Debt - Total Capital ratio} = \frac{TotalDebt}{TotalCapital}$$

It indicates how much of the capital is financed by creditors.

Debt-Equity ratio:

$$\text{Debt - Equity Ratio} = \frac{TotalDebt}{Equity}$$

The relationship between borrowed funds and internal owner's funds is measured by Debt-Equity ratio.

Times Interest Earned:

This ratio provides the safety measure or protection for creditors. It basically indicates the ability of the firm to pay off interest to its creditors efficiently using the operating profits.

$$\text{Times Interest Earned} = \frac{EBIT}{InterestExpense}$$

Fixed Charge Coverage Ratio:

$$\text{Fixed Charge Coverage Ratio} = \frac{EarningBefore\text{Fixed Charge and}Tax}{\text{Fixed Charge}}$$

This ratio indicates the firm's ability to pay all fixed charges. The higher the ratio, the better.

Capital Expenditure Ratio:

$$\text{Capital Expenditure Ratio} = \frac{\text{CashflowFromOperations}}{\text{Capital Expenditure}}$$

This ratio is crucial for understanding as it reflects how much cash flow can be generated from the operations to meet capital expenditure.

Cashflow–Debt Ratio:

$$\text{Cashflow Debt Ratio} = \frac{\text{CashflowFromOperations}}{\text{Total Debt}}$$

This ratio is an indication of how much cash flow from operations is available to pay out debt. The more, the better.

Profitability Ratio:

Every firm is most concerned with its profitability. One of the most frequently used tools of financial ratio analysis is profitability ratios which are used to determine the company's bottom line. **Profitability Ratios show margins represent the firm's ability to translate sales dollars into profits at various stages of measurement.** They show returns represent the firm's ability to measure the overall efficiency of the firm in generating returns for its shareholders.

Gross Profit Margin:

$$Gross\ ProfitMargin = \frac{Gross\ Profit}{Sales}$$

This ratio looks at how well a company controls the cost of its inventory and the manufacturing of its products and subsequently passes on the costs to its customers. The larger the gross profit margin, the better for the company.

Operating Profit Margin:

$$Operating\ ProfitMargin = \frac{Operating\ Profit}{Sales}$$

Operating profit is calculated by deducting other costs from gross profit. Thus it shows profitability from the core business of the company, excluding the effects of Investment, Financing and Operations.

Margin before interest and tax:

EBIT is earnings before interest and taxes. The operating profit margin looks at EBIT as a percentage of sales. The operating profit margin ratio is a measure of overall operating efficiency, incorporating all of the expenses of ordinary, daily business activity. It shows profitability of the business from core and peripheral businesses.

$$\text{Margin before interest and tax} = \frac{EBIT}{Sales}$$

Pretax Margin

$$PretaxMargin = \frac{EBT}{Sales}$$

This ratio shows the profitability of the business from core & incidental business excluding the impact of tax.

Net Profit Margin

$$\text{Net ProfitMargin} = \frac{NetIncome}{Sales}$$

Net Profit Margin shows the profitability of a company net of all expenses. Thus it shows the return from its core and peripheral business, including financing, investment & tax. **The net profit margin shows how much of each sales dollar shows up as net income after all expenses are paid. The net profit margin measures profitability after consideration of all expenses including taxes, interest, and depreciation.**

Return on Assets (also called Return on Investment)

The Return on Assets ratio is an important profitability ratio because it measures the efficiency with which the company is managing its investment in assets and using them to generate profit. It measures the amount of profit earned relative to the firm's level of investment in total assets. It indicates the return available for shareholder and creditors. The higher the percentage, the better, because that means the company is doing a good job using its assets to generate sales.

$$\text{Return on Asset} = \frac{NetIncome + AftertaxInterest}{AverageTotalAsset}$$

Desegregation of ROA:

$$ROA = TotalAssetTurnover \times ReturnOnSales$$

$$ROA = \frac{Sales}{TotalAsset} \times \frac{Income}{Sales}$$

$$ROA = \frac{Income}{TotalAsset}$$

As such from the Desegregation of ROA, we can understand that changes in ROA can be attributed to asset management or expense management. So, ROA depends on how efficiently assets and expenses are managed.

Return on Equity

The Return on Equity ratio is perhaps the most important of all the financial ratios to investors in the company. It measures the return on the money the investors have put into the company. This is the ratio potential investors look at when deciding whether or not to invest in the company. In general, the higher the percentage, the better.

$$\text{Return on Equity} = \frac{NetIncome}{Equity}$$

Desegregation of ROE:

$$ROE = ROA + \left[(ROA - CostOfDebt) \times \frac{Debt}{Equity} \right]$$

This desegregation relays, the fact that if the ROA is greater than the cost of debt, a higher debt-equity ratio will result in greater return for the shareholder and vice versa.

A more comprehensive look:

$$ROE = TotalAssetTurnover \times ReturnOnSales \times Asset - EquityRatio$$

$$ROE = \frac{Sales}{TotalAsset} \times \frac{Income}{Sales} \times \frac{TotalAsset}{Equity}$$

$$ROE = \frac{Income}{Equity}$$

This breakdown, help us identify what can be attributed to the fluctuation in ROE.

Return on Common Equity

This ratio indicates the return available for common shareholders:

$$\text{Return on Common Equity} = \frac{NetIncome - PreferredEquity}{Equity}$$

Return on Sales

This ration basically indicates, how efficiently the expenses have been managed. The higher the ratio, indicates that the expenses have been effectively managed, resulting in greater (relative) income, per dollar sales.

$$\text{Return on Sales} = \frac{NetIncome}{Sales}$$

Earnings Per Share

Eanings per share (EPS) is the profit attributable to shareholders (after interest, tax, minority interests and everything else) divided by the number of shares in issue. It is the amount of a company's profits that belong to a single ordinary share.

$$\text{Earnings per share} = \frac{\text{Earnings available for common shareholder}}{NumberOf\text{Common SharesOutstanding}}$$

Diluted Earnings Per Share

A diluted EPS is calculated using all shares in issue and those due to be issued under share option schemes. A fully diluted EPS is calculated using all shares issued, due to be issued and which could be issued if all existing warrants are exercised, convertible bonds are converted to equity etc.

$$\text{Diluted Earnings per share} = \frac{\text{Adjusted IncomeFor Common Shares}}{\text{Common \& Potential SharesOutstanding}}$$

Leverage:

Leverage is the amount of risk a person is willing to take. The greater the risk, the greater the potential payoff. Of course, the greater the risk the greater the investor's chance of losing the investment

Operational Leverage:

Operating leverage is a measure of how sensitive net operating income is to percentage changes in sales. Operating leverage acts as a multiplierGenerally, the higher the operating leverage, the more a company's income is affected by fluctuation in sales volume.

$$\text{Operating Leverage} = \frac{Contribution}{OperatingIncome} \qquad \text{Operating Leverage} = \frac{ContributionMarginRatio}{ReturnOnSales}$$

Financial Leverage:

Firms having financial cost, have financial leverage. Financial leverage refers to the use of debt to acquire additional assets. Financial leverage is also known as trading on equity. Therefore, a small change in Operating Income, bring about a large change net income.

$$\text{Financial Leverage} = \frac{OperatingIncome}{NetIncome}$$

Total Leverage:

Total leverage is a measure of total risk. The way to measure total leverage is to determine how EPS is affected by a change in sales.

$$TotalLeverage = OperatingLeverage \times FinancialLeverage$$

3.0 CMC KAMAL TEXTILE MILLS LIMITED

LK Lotus-Kamal Group

Conducted By: Naima Naim

CMC Kamal Textile Mills Ltd is a member of the **lotus-kamal group**. Lotus – Kamal Group (LK), a business house involved in a number of business disciplines covering manufacturing, trading, services and real estate sectors.

LK is currently consists of 19 business enterprises of which 9 are in the manufacturing, 5 in the service, 2 in the trading and the remaining 3 are in the real estate sectors . All the business enterprises coming under LK is founded by Mr. AHM Mustafa kamal, FCA, and MP who is also the President & CEO of the Group. Mr. Kamal started his business career in the year 1981 by establishing his first manufacturing unit title Lotus Engineering Industries Ltd. A project involved in the manufacturing of jute and textile mills machinery and spares.

CMC Kamal Textile Mills Ltd is the renowned textile firm of the country. It has been established in 1995. It is a public limited company. The company is cotton yarn spinning having 25000 conventional spindles and 2000 open spinning rotors. Its 50% ownership owned by General Public and different financial institutions and 50% owned by Mr. Kamal and his family members. It has 900 employees. The annual turnover of the company is TK 360 million.

Mission

To give customers a competitive advantage through superior and high-quality products and services at best prices and to meet and exceed customers' expectations of service through timely communications and quality information to achieve tangible benefits by promoting efficiencies, productivity and professionalism to provide competitive prices and genuine products to our clients to create a climate for voluntary compliance by providing guidance and building mutual trust and to promote international textile trade.

Vision

To become the leader in textile industry around the world and to be a world-class organization - one that becomes a benchmark for other organizations, its source for new ideas, information, professional development and quality standards and to become a company that impresses its customers the first time and to attain highest level of business efficiency with integrity and honesty.

Operational Highlights:

Location : Kaicha Bari, Bashbari, Ashulia, Dhaka
Business Line : Manufacturing of cotton yarn of different counts
Date of incorporation : 25th May, 1995
Date of Commercial Operation : July, 1998
Nature of the company : Public Limited Company
Stock Exchange Listing : Listed in DSE
Authorized Capital : Tk 200 crore
Paid-up Capital : Tk 18.92 crore (fully paid up ordinary shares of TK 10 each)
Designed Capacity : 24,960 spindles+5 open end spinning frames @ 192 spindles each

Inventory Accounting Method

There are different inventory accounting method to follow to complete financial reporting. The inventory is reported into balance sheet. For identifying the price of inventory there are LIFO, FIFO or Weighted Average method.

CMC Kamal Textile Mills Limited follows the weighted average method in the compliance with the requirement with BAS-2 "Inventories". Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. The cost of inventories comprises all costs of purchase; costs of conversion include all direct costs excluding interest expense. Net realizable value is the estimate of selling price in the ordinary course of the business less the cost of completion and selling expense.

Activity Ratio Analysis

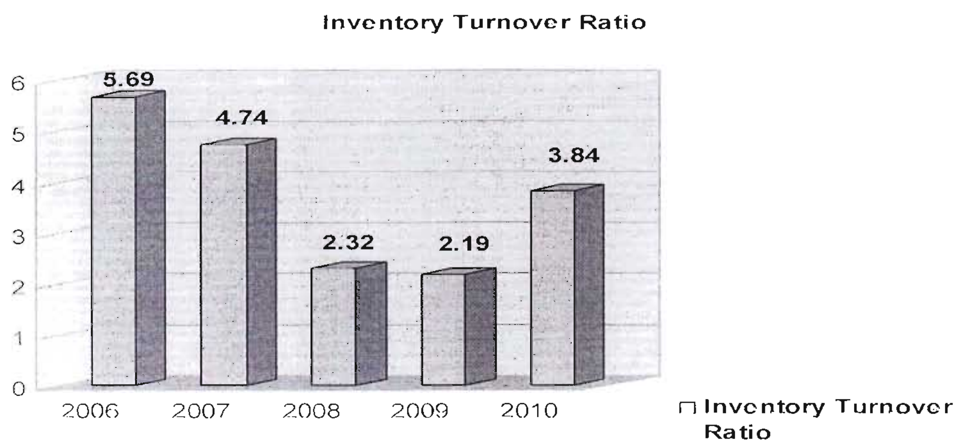
Findings:

Activity Ratio	2006	2007	2008	2009	2010
Inventory Turnover Ratio	5.69	4.74	2.32	2.19	3.84
Average No. of days Inventory in Stock	64.45	77	157.33	166.67	95.05
Receivable Turnover Ratio	9.26	10.6	35.94	20.38	16.56
Average No. of days Receivable Outstanding	39.42	34.43	10.16	17.91	22.04
Payables Turnover Ratio	25.71	16.69	7.47	16.54	36.73
Average No. of days Payable Outstanding	14.2	21.87	48.86	22.07	9.94
Fixed Asset Turnover Ratio	0.65	0.57	0.44	0.56	0.54
Total Asset Turnover Ratio	0.05	0.48	0.34	0.39	0.46

Analysis:

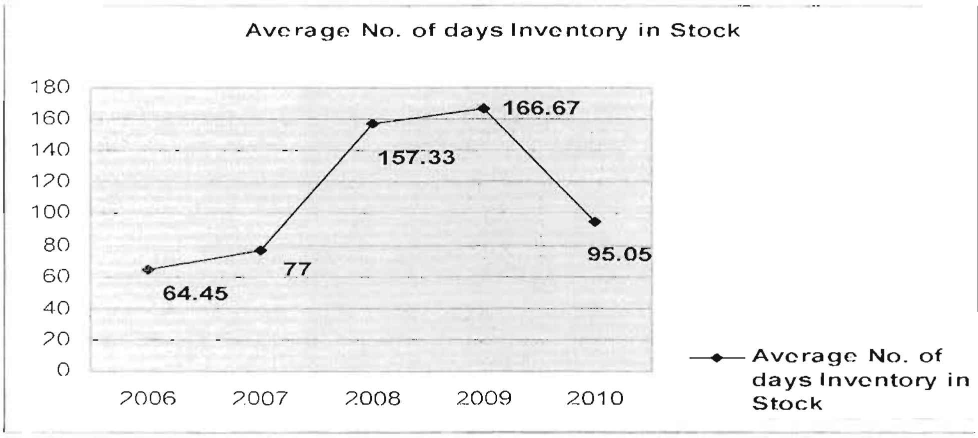
Inventory Turnover Ratio

From the inserted table we can find out that the inventory turnover is slow down from 5.69 to 3.84 during the time span from 2006 to 2010. The table shows the highest turnover of inventories in 2006 which is 5.69. The lowest turnover process has been done in 2009 which is 2.19. The turnover consecutively has sluggish down from the year 2006 to 2010.



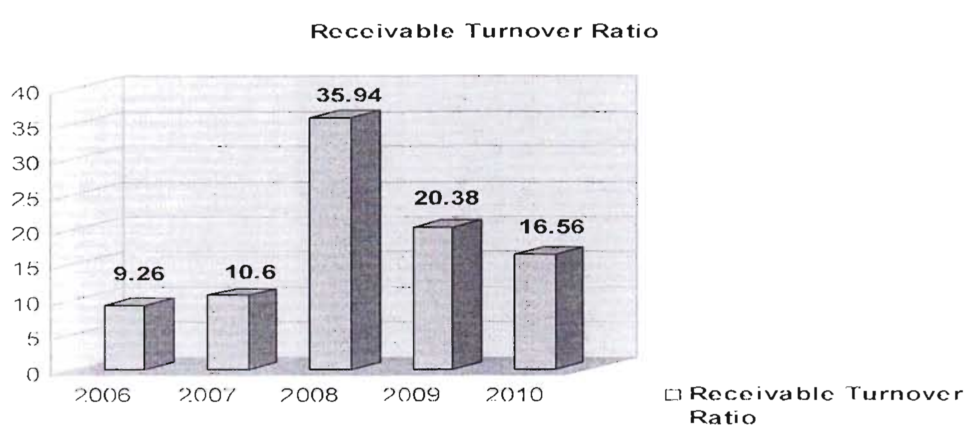
There is huge fluctuation and instability in the ratio of turnover. So, we can say that the company is not efficient in inventory management. The process has been drastically declined or slows down in 2008 and 2009 which is 2.32 and 2.19. The inventories were piled up and remain idle from 2008 to 2010. In 2006 the ratio was higher. But it started to fall severely from 2008. In 2010 the ratio was little bit up. But still the inventory remained idle and piled into stock.

Average No. of Days Inventory in Stock



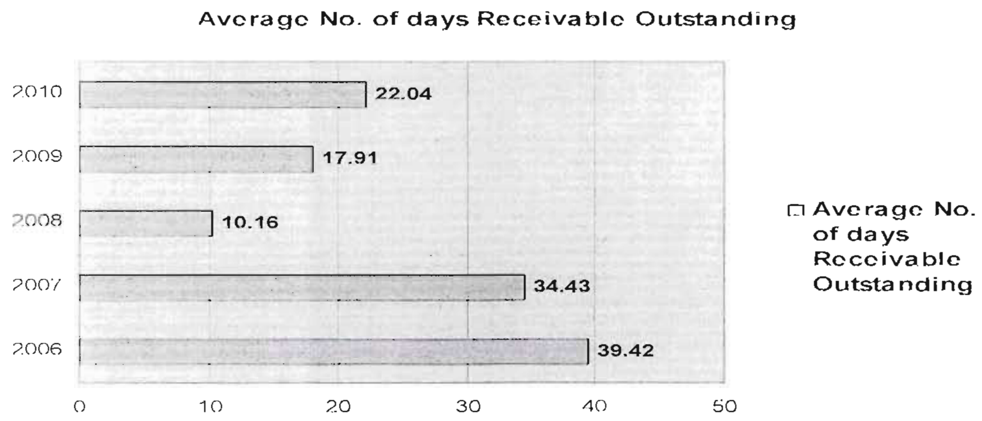
From the inserted graph we can see that the inventory turnover takes long time to be sold from 2007 to 2010. In 2009 the highest ratio 166.67 days shows that the inventories kept higher days in the stock just to sell which decreases the profitability of the firm. In 2006 the lowest days are taken to sell the inventories. The numbers of days are highly fluctuating every year. It proves the inefficiency of the inventory management.

Accounts Receivable Turnover Ratio



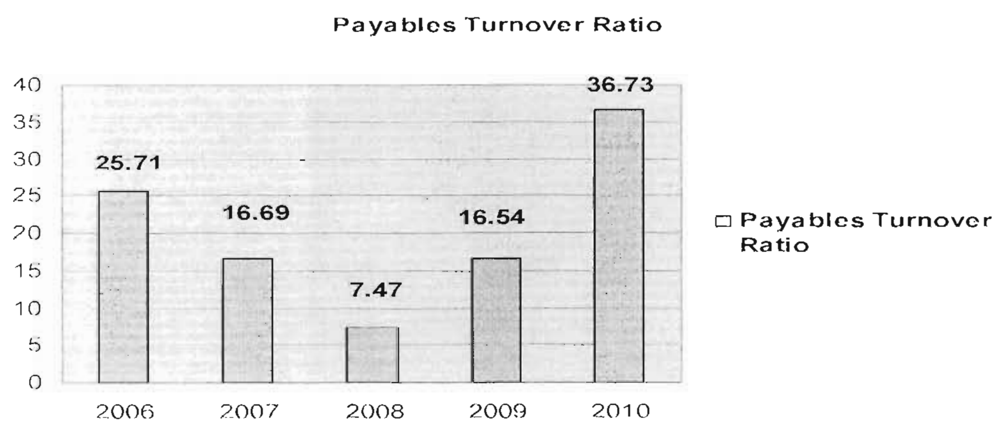
The receivable turnover ratio is consistently lower in most of the years. The receivables are frequently collected in 2008 which is 35.94. But in 2006 the lowest ratio shows firm's inefficiency to collect the piled credit collection. The consistently lower ratio trend shows that the firm is inefficient in firm's credit policy and slowly collects its receivables.

Average Days of Receivables Outstanding



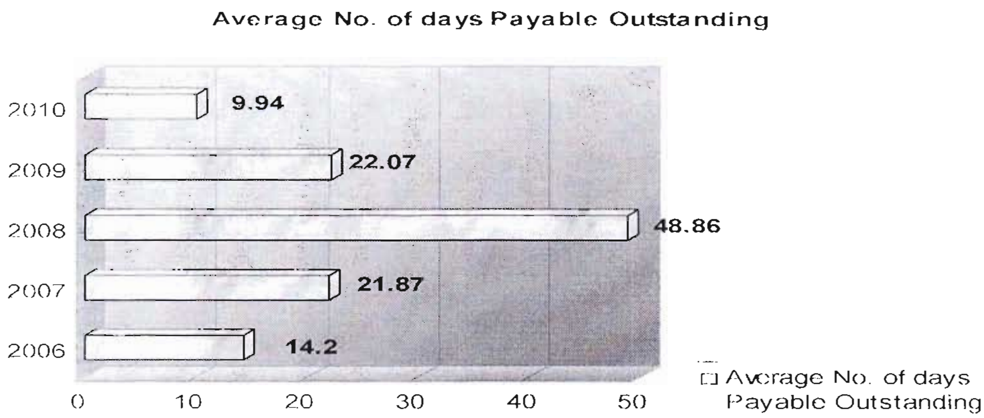
The above graph shows that the length of time the firm takes to collect its receivables from last five years. The receivable collection period should be lower so that the firm can early turnover the receivables into cash. The graph shows that the lowest ratio of collection period is 10.16 days in 2008. But maximum years the time period was higher to collect the receivables. The highest time taken to collect receivables was 39.42 in 2006. The firm is inefficient in receivable collection.

Payable Turnover Ratio



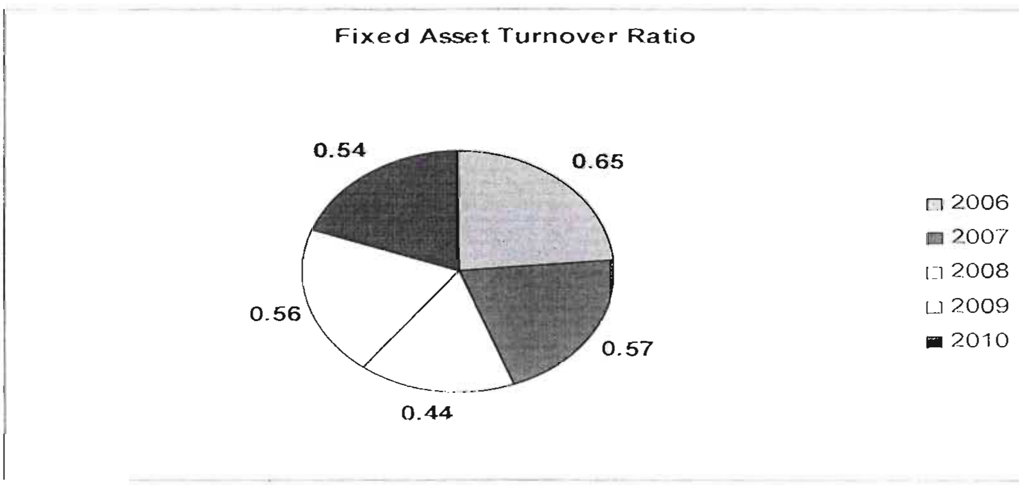
Payable turnover ratio measures how many times the suppliers are paid in a year. Lower the ratio is better because then the company pay its creditor less frequently. But CMC Kamal Textile Mills Ltd shows higher ratios consistently and paying its creditors first rather than receivable collection. The credit is paid earlier than credit collection. In 2008 the ratio was 7.47 which show less frequently credit payment. But in 2010 the payment trend was the highest which is 36.73. The trend of the payment is higher.

Average No. Days Payable Outstanding



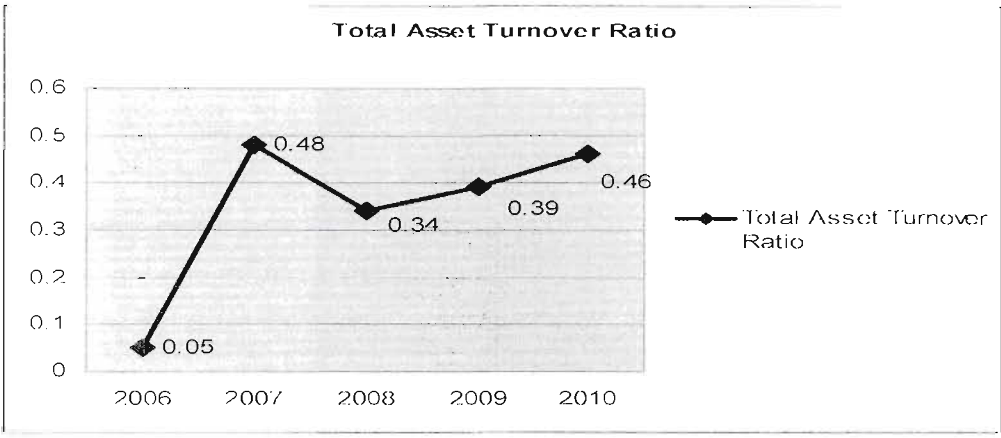
The graph shows the trend of lower time span to pay the creditors. The higher the ratio, the better the firm is to manage its credit policy and to maintain lower cash cycle. The number of the days is higher in 2008 which is 48.86. The less time period is shown in 2010.

Fixed Asset Turnover Ratio



Fixed asset turnover ratio shows the firms ability to generate sales or perform its operation through its given level of fixed assets. The graph shows that the turnover of sales by fixed assets has stability in last five years. The highest sales were generated by fixed assets in 2006 which is .65. Then the ratio slowed down in 2007, 2008 and goes up into 2009. But the lowest turnover happened in 2008 which was .44.

Total Asset Turnover Ratio



This ratio measures by utilizing its total assets how much sales the company generates. Higher the ratio is better for the company, because higher the ratio indicates that the company is efficient to utilize the assets in case of generating sales. The highest turnover is shown in 2007 which is 0.48. There is a fluctuation is total asset utilization. From 2006 to 2007 the turnover was significantly increased and showed excellent performance in utilization of total asset to generate sales. Then the ratio declined again increased from 2009 to 2010.

Liquidity Ratio Analysis

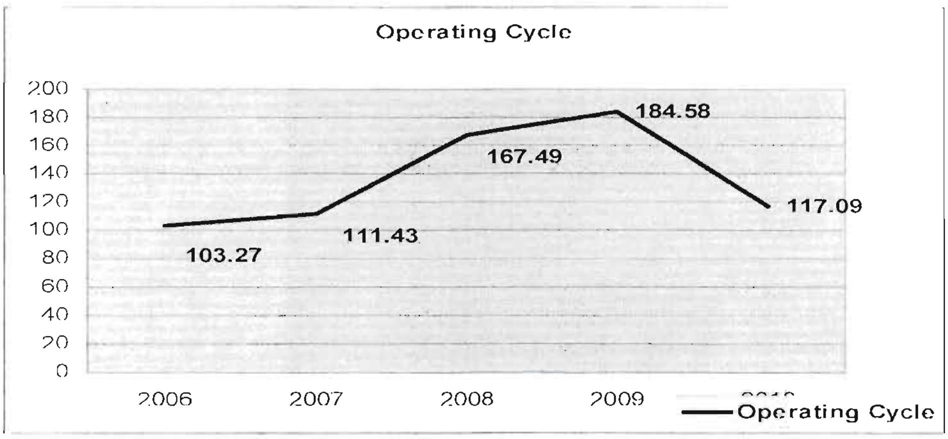
Findings:

Liquidity Ratio	2006	2007	2008	2009	2010
Operating Cycle	103.27	111.43	167.49	184.58	117.09
Cash Cycle	89.07	89.56	118.63	162.51	107.15
Current Ratio	1.07	0.88	0.9	0.44	0.61
Quick Ratio	0.398	0.27	0.67	0.07	0.17
Cash Ratio	0.017	0.016	0.011	0.03	0.06
CFO from operation	0.02	0.16	0.0098	0.026	0.06

Analysis:

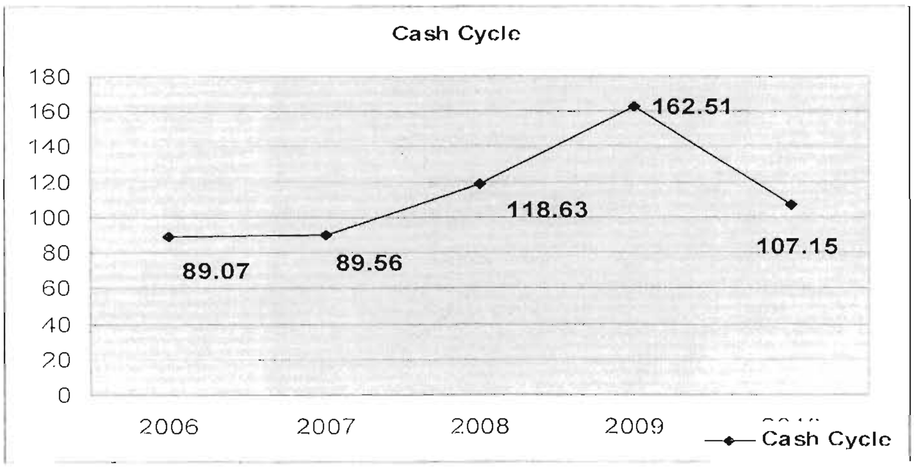
Liquidity means the ability of the company to use its Current Assets to pay its Short-Term obligations. ST lenders and ST creditors are more concern about the liquidity analysis of a company, because they want to know that whether a company has ability to pay its short term obligation in-time or not.

Operating Cycle



The trend of operating cycle increase or decrease is upward curving. From 2009 it started to decrease. Operating cycle in the total length of the time of inventory sold and account receivable collection. In 2006 the operating cycle was the lowest which is 103.27. The highest time taken is 184.58 which is negative sign for the firm.

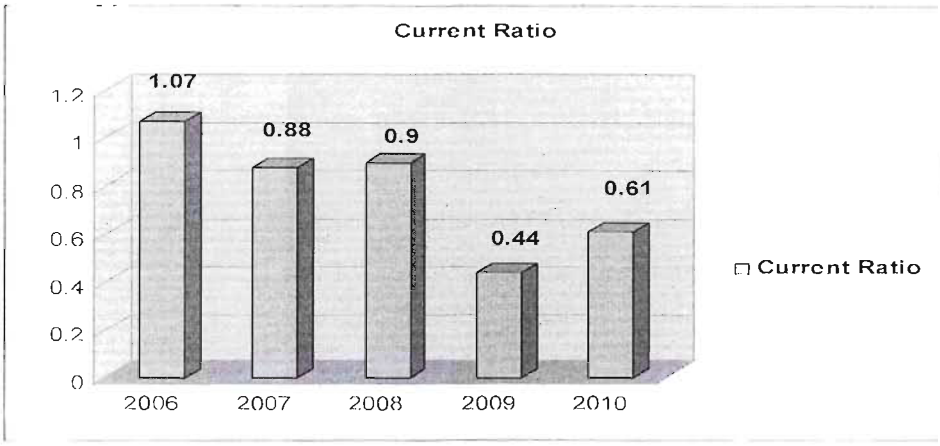
Cash Cycle



After deducting the days of payable outstanding from operating cycle we get cash cycle. Shorter the cash cycle is, higher the collection process of the company and delay of payment. The cash cycle is increasing from 2006 to 2007 from the inserted graph. In 2006 it is 89.87 which is the lowest cash cycle among five years. The receivables are collected quickly from accounts.

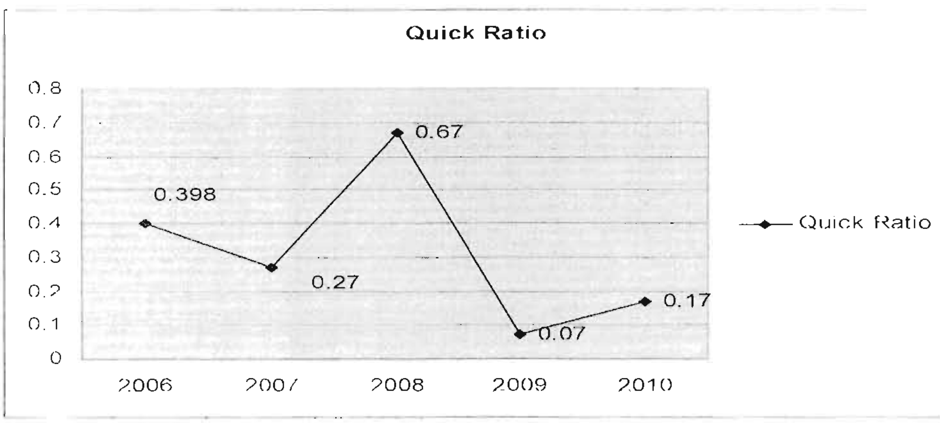
Current Ratio

Current ratio is the measurement of the ability to pay the financial obligations with the given of current received.



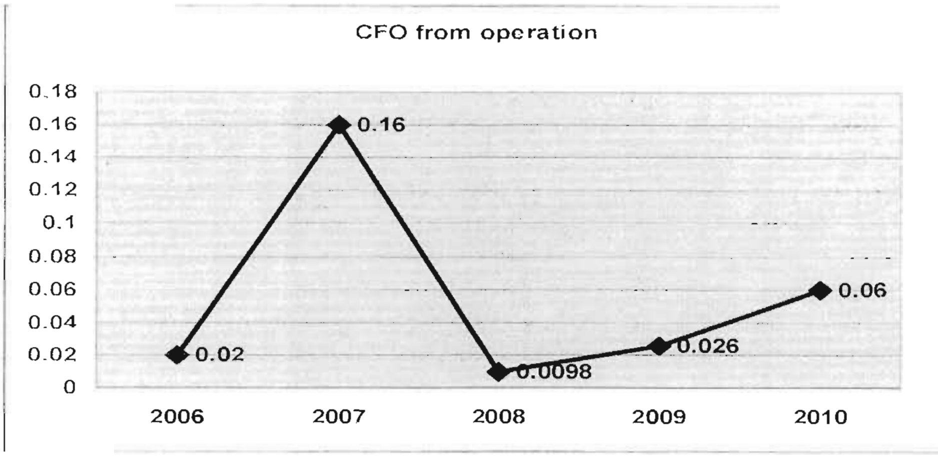
Current ratio indicates the liquidity position of a firm and CMC Kamal Textile Mills Limited increases its current ratio refers that the firm increases its liquidity position. However it has been increasing over the years. But it has been decreased in year 2009 and again increased 2010 which is .61. It means it has .61 assets to pay tk 1 current liability. If current ratio increases it shows better liquidity position but at cost of profitability. CMC Kamal holds higher asset to pay current obligation but it doesn't generate any revenue.

Quick Ratio



Since not all the elements of current asset of a firm cannot be readily converted into cash, quick ratio eliminates those components which cannot be converted into cash i.e. prepaid expenses and depreciation. From the above table we can identify that in 2006 the firm has Tk. 0.398 quick assets (cash, receivables and marketable securities) to pay its 1 taka current liability which decrease to 0.27 in 2007 but than increased to 0.67 in 2008. It again decreased drastically to .07 in 2009 and not improving till 2010. This gives indication that firm may face liquidity problem in near future.

CFO from Operation



CMC Kamal generated little cash flow from operation. There is a huge variability and fluctuation in the cash flow from operation. In 2006 the ratio was .02; in 2007 it increased to .16. Than the ratio again decrease into .0098 in 2008. Gradually it is increasing after 2008.

Long Term Debt and Solvency Ratio

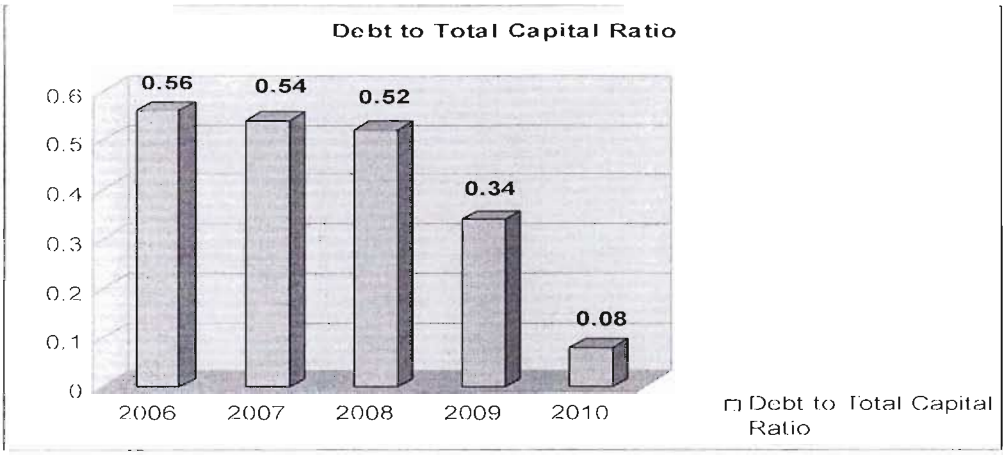
Findings:

Long Term Debt and Solvency Ratio					
	2006	2007	2008	2009	2010
Debt to Total Capital Ratio	0.56	0.54	0.52	0.34	0.08
Debt to Equity Ratio	1.37	1.12	1.49	0.51	0.09
Time Interest Earned Ratio	0.86	0.63	0.38	15.96	3.27
Fixed Charge Coverage Ratio	1.29	0.64	0.25	0.28	0.84
CFO to Debt Ratio	0.07	0.13	0.023	0.063	0.416

Analysis:

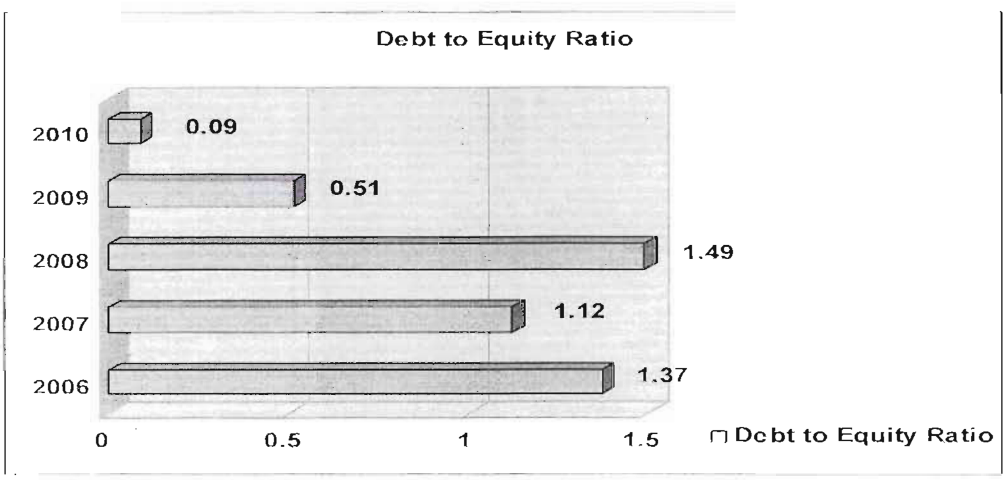
The analysis of firm capital structure is necessary to understand long term risk and return prospect. The debt can be used when the rate of return of the project is higher than cost of debt. Using higher debt is risky for the firm and threatens the solvency of it. We will scrutinize how much debt or equity CMC Kamal Textile Mills limited used for in the capital structure.

Debt to Total Capital Ratio



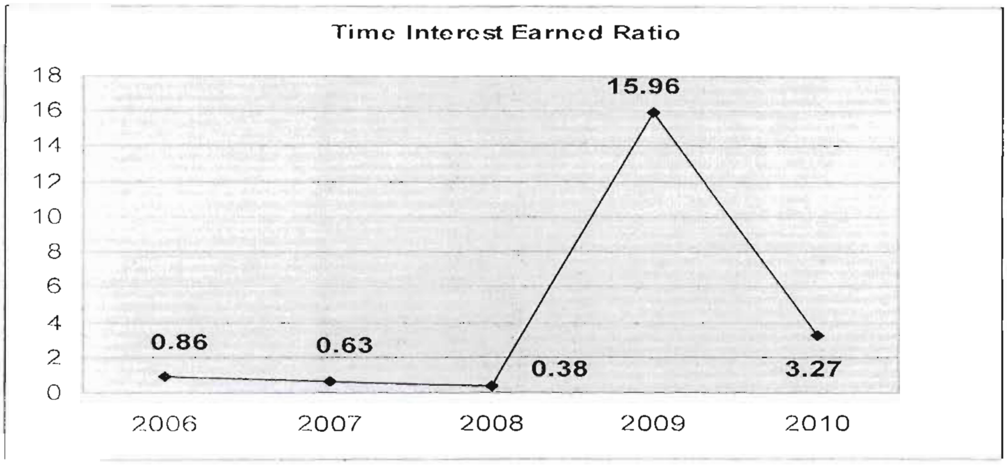
This ratio explains the proportion of External claim over firm's total assets or total capital. Lower the Ratio is better for company's shareholder, because it indicates that the shareholder of the firm have more claim over firm's total assets than the external claims. From the ratio table we see that from 2006 to 2008 the firm has always had more than 55% debt in its capital structure. It shows shareholders always having to bear higher amount of risk in prospect of magnifying return.

Debt to Equity Ratio



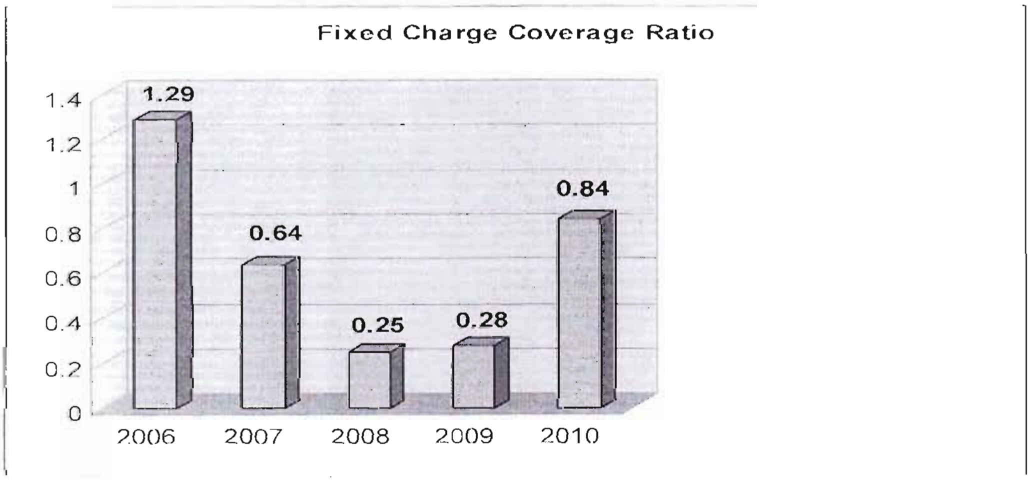
The debt to equity ratio of this company is not much favorable for the stockholders. In the year 2009, this ratio was 3.53 which indicate for every Tk 1 of equity held; stockholders are bearing liability of Tk 3.53. The stockholders are bearing higher amount of risk, and Dhaka Fisheries Limited should work to progress this situation by reducing the ratio and stockholder risk.

Time Interest Earned Ratio



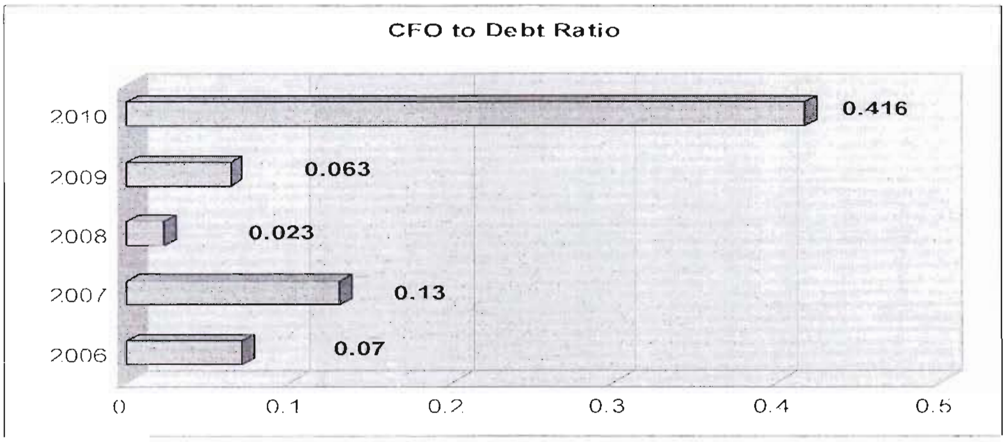
From the inserted graph we can see that the firm has consecutively been lower from the year 2006 to 2008. This ratio shows firms ability of the firm to pay its interest expense by its operating income. Higher the ratio indicates higher solvency to pay out interest. The decreasing trend of the time interest earned ratio shows less safety measure on protection available for creditors. The firm may fail to pay the interest near future.

Fixed Charge Coverage Ratio



Fixed Charge includes the interest, current portion of long term payment, lease payment. The ratio shows the ability to pay the fixed charge coverage ability. There is fluctuation in the ratios of five years. In 2006, the ratio was 1.29 which is the highest ratio and it shows sufficient earnings to pay fixed charges and solvency of the firm. But later the ratio declined and shows alarming situation for the firm. But in 2010 the ratio was quite better.

CFO to Debt Ratio



CFO to debt Ratio indicates the actual cash in hand to pay out the debt obligations of the firm. The entire ratio is less than 1. It means the firm has inadequate cash flow for debt repayment after capital expenditure. There is a huge fluctuation in ratio.

Profitability Ratio

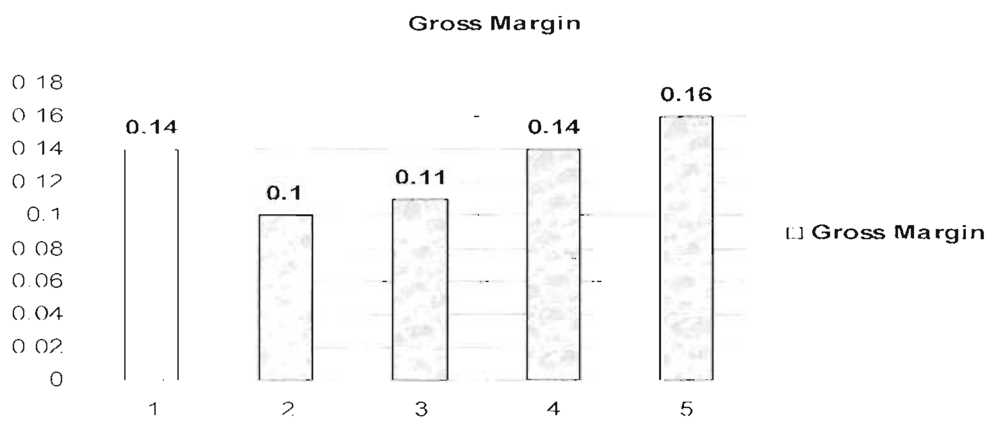
Findings:

	2006	2007	2008	2009	2010
Gross Margin	0.14	0.1	0.11	0.14	0.16
Operating Margin	0.11	0.07	0.05	0.09	0.13
Margin before Interest and Tax	0.11	0.08	0.051	0.1	0.14
Pretax Margin	-0.018	-0.046	-0.085	0.098	0.09
Profit Margin	0.027	-0.05	-0.2	0.08	0.08
Return on Asset	6	4	17	4	6
Return on Total Capital	7	4.5	2.2	7.2	8.6
Return on Equity	4	-68	-24	39	6
Asset to Equity	2.71	2.68	3.49	2.66	1.44
EPS	-3.45	-5.87	-19.24	1.01	1.92
Return on Sales	2.7	-5.3	-20	8	8

Analysis:

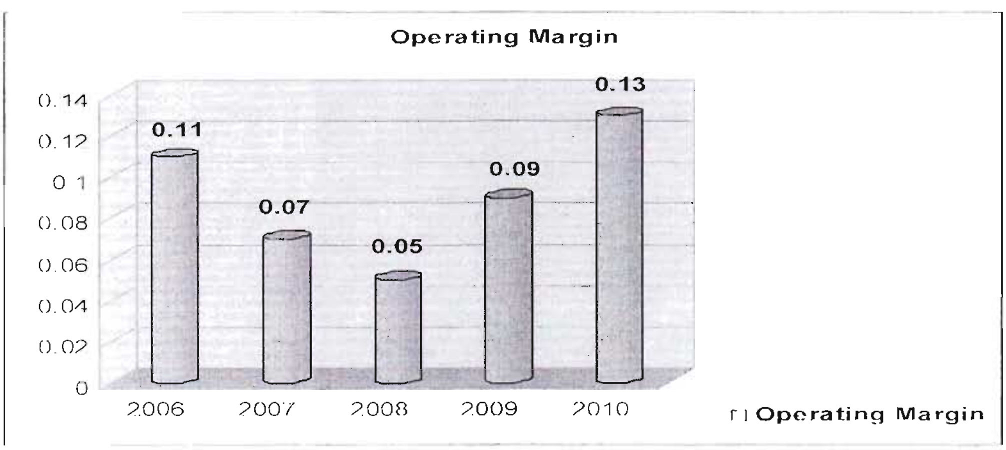
For analyzing the profitability of CMC Kamal Textile Mills Ltd it is important to consider various ratio analyses. The analyses are given below....

Gross Margin



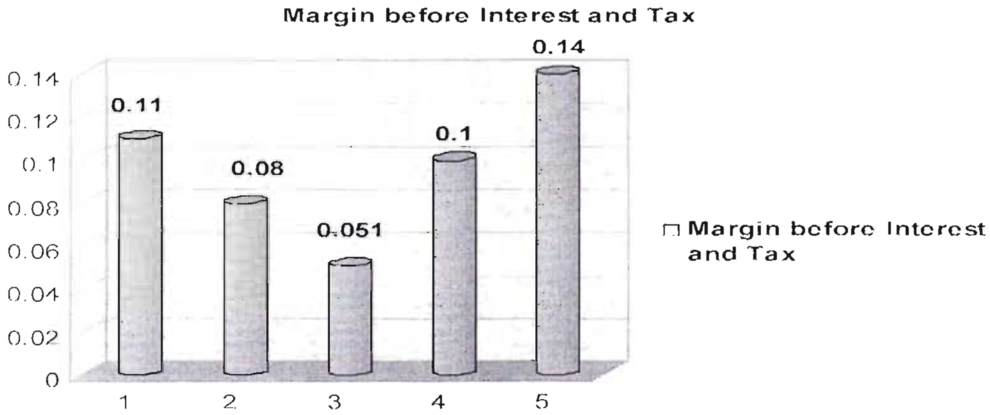
From the above graph shows higher gross margin which indicates the relationship between sales and manufacturing expenditures. CMC Kamal has higher ratio trends of gross margin. The highest gross margin is .16 in 2010 which means it is able to generate higher sales from operations. It is also increasing efficiency to control its cost of good sold.

Operating Margin



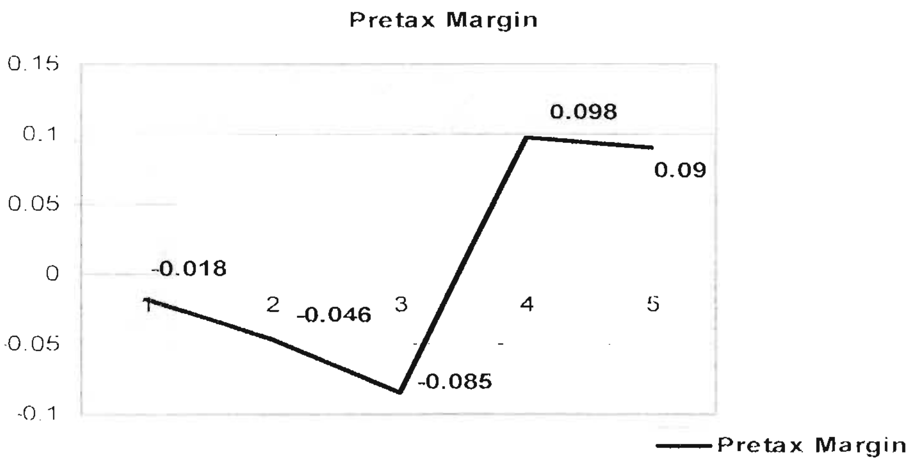
The ratio measures the profitability of the firm from its core operations. This profitability measure excludes the effect of Investment, Financing and Tax Position. The ratio declines at the beginning years. But in 2009 the ratio improved which was .09. In 2010 the ratio goes up to .13 which was the highest pick.

Margin before Interest and Tax



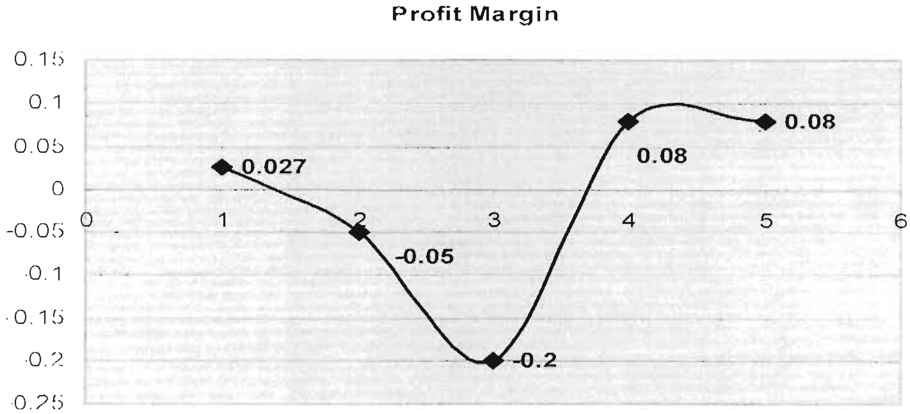
There is a vast fluctuation in the margin before interest and tax. The ratio measures firms' ability to pay interest and tax after deducting all operating expenses. The lower ratios of 2007 and 2008 shows lower cash in hand to pay the interest and tax whereas the higher ratios of 2006, 2009 and 2010 shows higher ability to pay interest and tax.

Pretax Margin



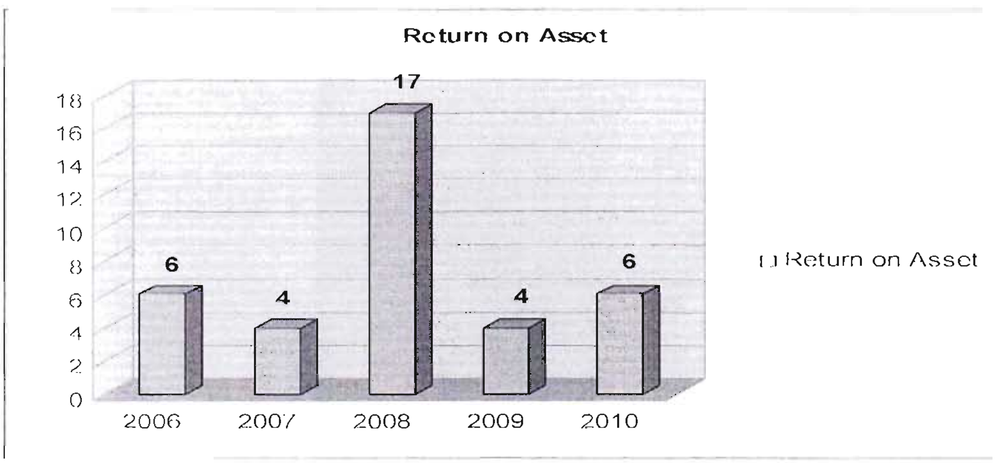
Pretax margin shows the profitability of a company considering the core, peripheral operation and capital structure. The higher the ratio, the better the firm is. But the graph tells us that the ratio is worse and the company is in loss in most of the years of 2006, 2007, and 2008. In 2009 and 2010 the ratio improved a lot. It is very alarming for CMC Kamal Textile Mills that the loss can deter the future operation of the firm.

Profit Margin



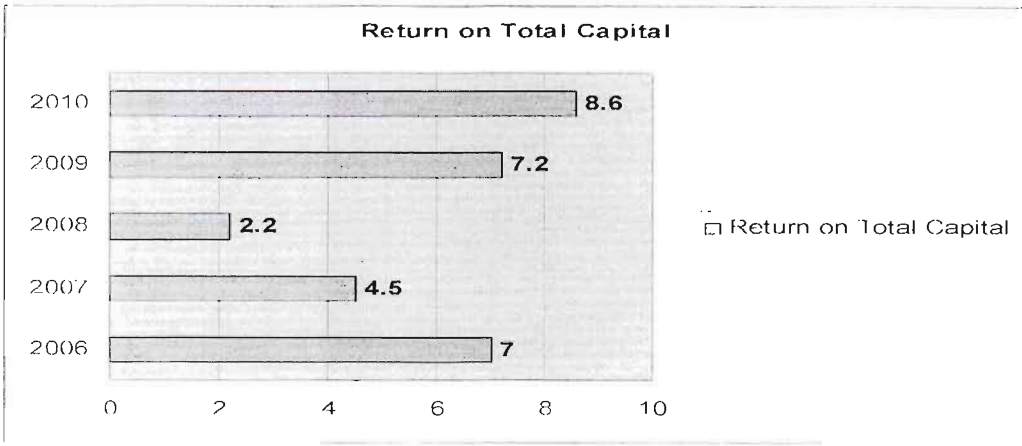
Net profit margin shows the profitability of the whole company considering the core and peripheral operation, capital difference and tax difference. The profit margin has decreasing trend in last five years. It is very frustrating that the firm operates below net profit line and having loss in 2007 and 2008. But in 2009 and 2010 the ratio improved and showed firm's efficiency to improve the profitability.

Return on Asset



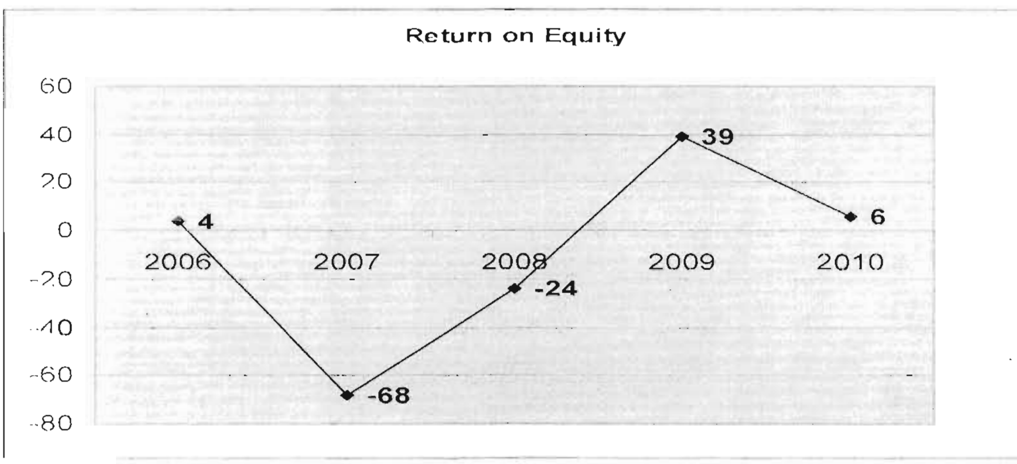
This ratio shows how much return a firm has generated by the given level of assets. The following chart shows CMC Kamal Textile generates moderate or lower return in most of the years. There is variability in the ratios. The highest ratio generated in 2008 which is 17. But most of the years it increased and decreased and again increased in little amount.

Return on Total Capital



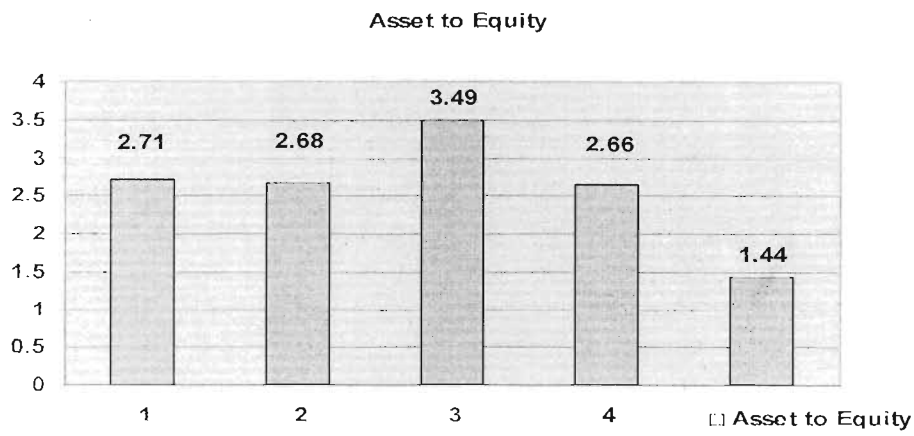
This ratio justifies how much return generated by the firm through the contribution of both creditors and shareholders in the firm. The higher ratio shows good position for the firm. There is an increasing trend in graph. In most of the years the firm generates higher return by capital structure. The highest ratio is 8.6 in 2010 which is a good picture of CMC Kamal Textile Mills Limited.

Return on Equity



ROE shows the return of the firm generated by the contribution of equity investors. The higher ratio shows a good use of equity of the firm. But it is unfortunate that CMC Kamal Textile Mills Limited is unable to utilize the fund properly. It generates lower return through equity utilization. The ratio was negative and declined in 2007 and 2008. The ratio improved in 2009 into 39. It is the highest ratio.

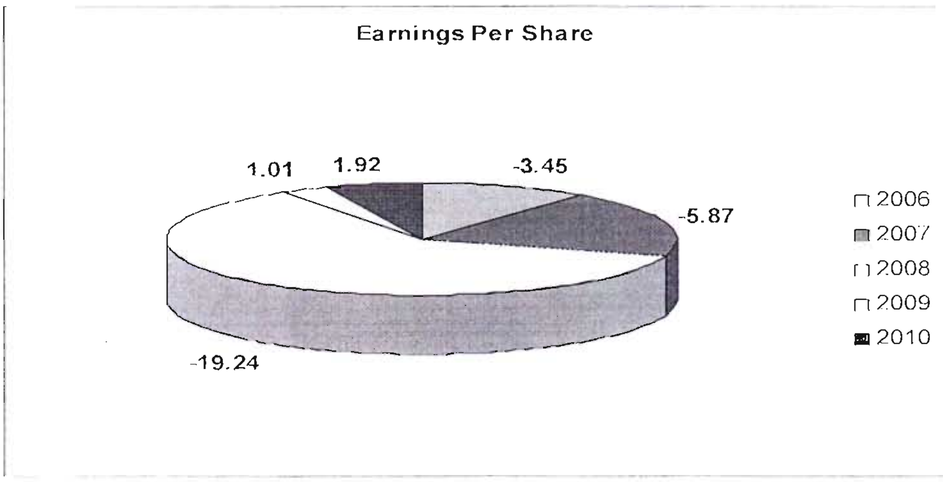
Asset to Equity Ratio



Asset to Equity ratio shows how much asset has been generated by using equity. CMC Kamal Textile Mills ltd has higher ratio trend in last five years. The ratio declined in 2010 into 1.44 .

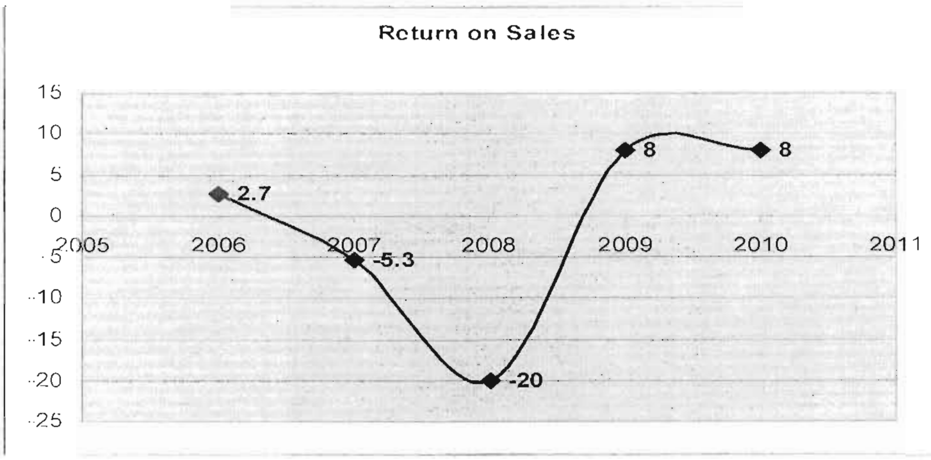
Earnings per Share

EPS is the symbol of net income the firm generates from its operation. The EPS is counted with net income dividing by number of share outstanding.



The EPS has drastically reduced in 2008 into 19.24. In 2006 and 2007 the ratio were also negative. In 2010 EPS increased to 1.92.

Return on Sales



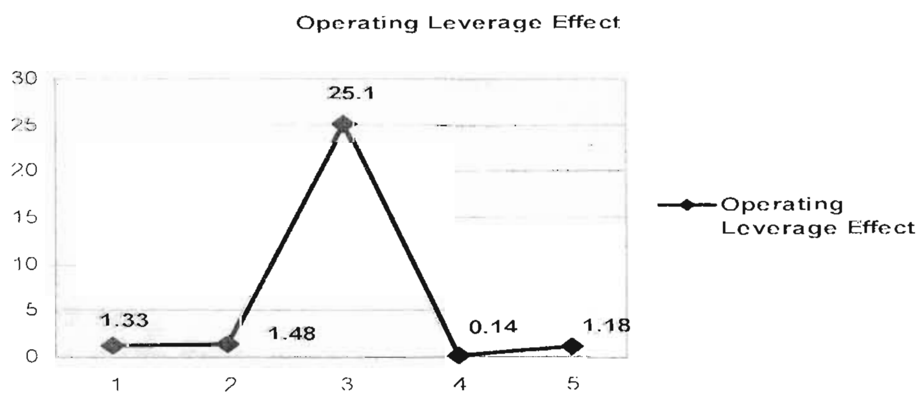
The ROS is decreasing at the beginning years. In 2007 and 2008 the ratio was -5.3 and -20. The lowest ratio was -20. In 2010 the ROS increased to 8.

Leverage

Operating, Financial and Total Leverage Effect

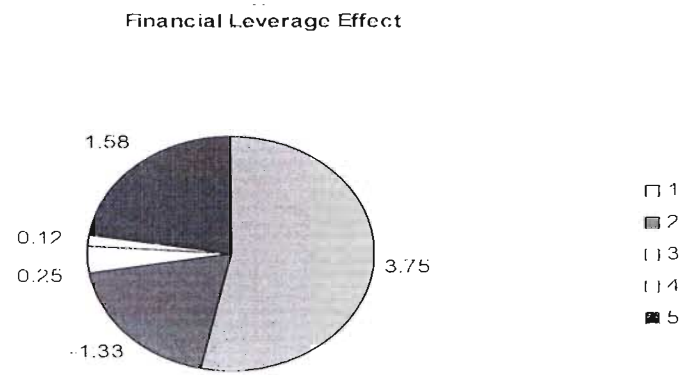
Operating Leverage Effect	1.33	1.48	25.1	0.14	1.18
Financial Leverage Effect	3.75	-1.33	-0.25	0.12	1.58
Total Leverage Effect	4.99	-1.97	-0.525	0.0168	1.86

Operating Leverage Effect



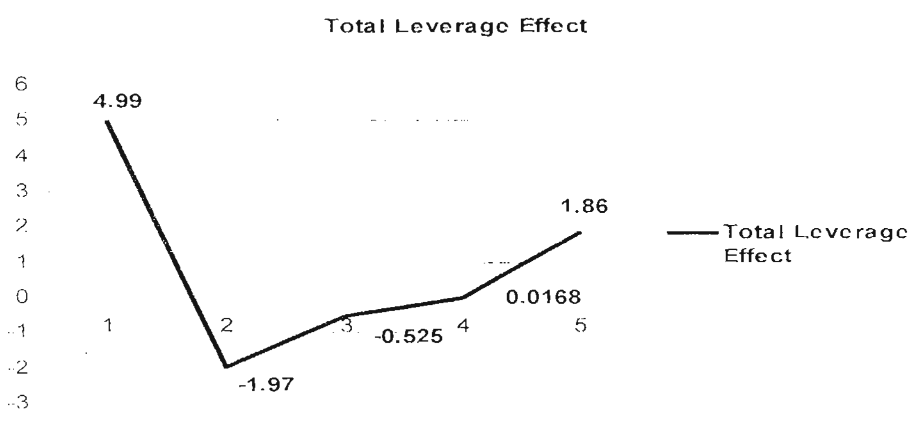
The operating leverage effect shows for the given level of change in sales how many change in EBIT. It includes the fixed operating costs. In 2006, the OLE was 1.33 which shows the presence of operating leverage. If sales change by 1% EBIT will change more than 1%. In 2008 the OLE was so high that it can be alarming situation for the firm. In 2009 and 2010, the OLE is less than 1.

Financial Leverage Effect



FLE shows for a given level of EBIT how much change in EPS has happened. There is a decreasing trend in FLE. But in 2010, FLE has increased to 1.58. It means for a given level of change in EBIT, net income or EPS changes by 1.58%.

Total Leverage Effect



The total leverage effect (TLE) has decreased in 2007 drastically in 2007 into -1.97. This ratio shows how changes in sales will effect changes in Net Income. The fluctuation observed in TLE is all attributed to the variable OLE, since FLE is more or less constant. The greater risk is shown in 2006 which is 4.99.

4.0 H.R. TEXTILE MILLS LIMITED

Conducted by: Naslina Nasser

H.R. Textiles Mills Limited is an integral part of the **Pride Group**. Pride Group is a **vertical textile group** engaged in the manufacture and export of knitwear products to the European Union. the USA and Canada. The group is also engaged in production and marketing of saris, kids wear, ladies' wear, home furnishing and other textile products through a chain of 66 retail outlets spread all over Bangladesh. As of date. Pride Group consists of H.R. Textiles Mills Limited, Fashion Knit Garments Limited. Dacca Textiles Limited. Pride Limited, Urban Truth and MODA.

Pride Group began its journey in 1958, when founder Halimur Rahman first established Dacca Textiles. and laid the foundation to what would eventually become Pride Limited. He came to the realization that much of the saris in popular demand at the time, were imported from neighboring countries, and that locally hand-crafted materials were seldom used or appreciated. At the time of Dacca Textiles' inception. Rahman was employed in EPSCIC, and it is from this that he arrived at the idea of establishing a garment factory that would supply locally made saris for the women of Bangladesh.

H.R. Textiles Mills Limited is a vertical public limited company, engaged in manufacture of knitwear products. H.R. Textiles Mills is a Lycraassured factory. Zara, Bershka, New Look. Stradivarius, and El Corte Inglés are some of their clients.

Value

We continue to value our employees as the most precious asset of the company. Our endeavor will continue to ensure quality and high standard in everything whatever we do with morals and ethical standard.

Mission

Developing and promoting the textile sector of the national economy by enhancing corporate, moral and ethical values; catering to customers need through manufacturing and supplying of quality products: maximizing shareholders' interest and ultimately bringing about changes in the quality of life in Bangladesh.

Vision

To be the most respected and world class company in the global Textile Sector.

Operational Highlights

General		Financial	
Year of Incorporation	1984	Authorized Capital	500 Million
Converted into Public Ltd. Co.	1995	Paid Up Capital	200 Million
Initial Public Offering of Share	1996		
Enlistment with DSE and CSE	1997		

A Glimpse at HR Textile's Ratio Analysis:

Activity Ratio

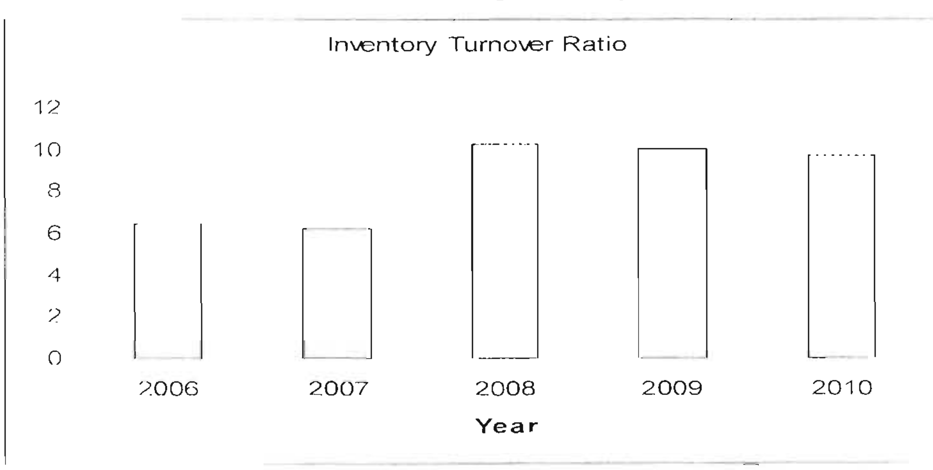
Findings:

Activity Ratio	2006	2007	2008	2009	2010
Short Term Activity Ratio:					
Inventory Turnover Ratio	6.4353	6.2567	10.2762	10.0152	9.7189
Average Number of days Inventory in Stock	57	58	36	36	38
Receivables Turnover Ratio	4.6614	3.0028	4.1683	3.6736	2.9797
Average Number of days Receivables Outstanding	78	121	87	99	122
Payables Turnover Ratio	2.4637	1.6741	2.0973	2.1315	2.0659
Average Number of days Payables Outstanding	148	218	174	171	177
Long Term Activity Ratio:					
Fixed Asset Turnover Ratio	1.5319	1.5940	2.5018	2.6062	2.4536
Total Asset Turnover Ratio	0.9001	0.8696	1.2164	1.2083	1.0813

Analysis:

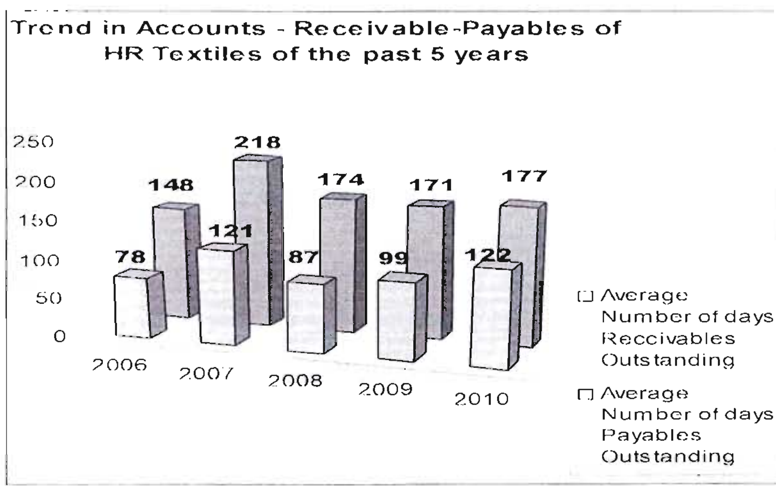
Inventory Turnover Ratio:

From the graph inserted, we can understand that there has been a significant increase in the turnover ratio, from 6.25 to 10.27. However, in the year 2008 and 2009 the ratio is more or less constant, thus indicating that the inventory became more mobile and efficient. 2010 saw a slight dip in the ratio, but.



Accounts Receivable Turnover and Accounts Payable Turnover:

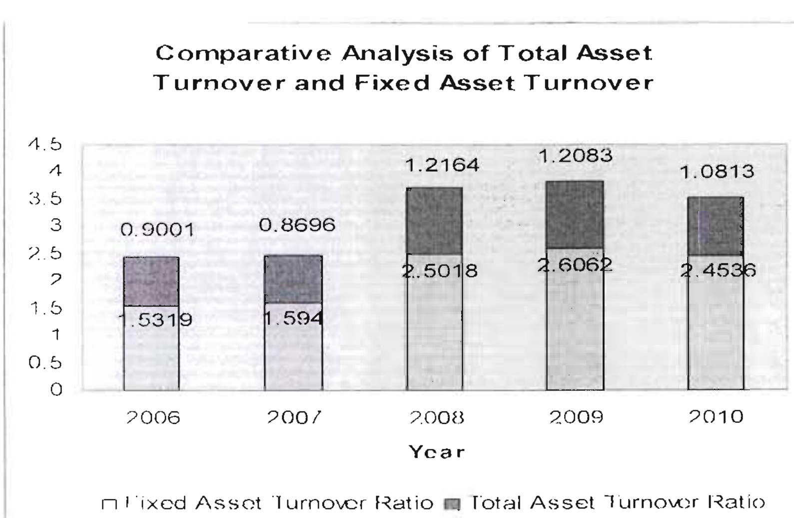
Accounts Receivable Turnover and Accounts Payable Turnover, is an important indication of how a company is managing its operation. The following chart depicts that HR Textiles, has been able to manage both these efficiently. A company always prefers if their accounts receivables turnover is higher then accounts payable. The graph shows how many days it takes HR Textiles to collect receivable and pay payable respectively.



Thus HR Textiles, has been able consistently maintain the trend of retrieving the accounts receivables faster than paying its payables. It collects the receivables approximately 76 days before paying its payables.

Fixed Asset Turnover and Total Asset Turnover:

The Fixed Asset Turnover ratio as well as the Total Asset Turnover ratio improved significantly over the past 5 years. Like the inventory turnover ratio, which improved significantly in 2008, this was their year for progress concerning the discussing ratios. This means that it had been able to better utilize its assets to generate sales.



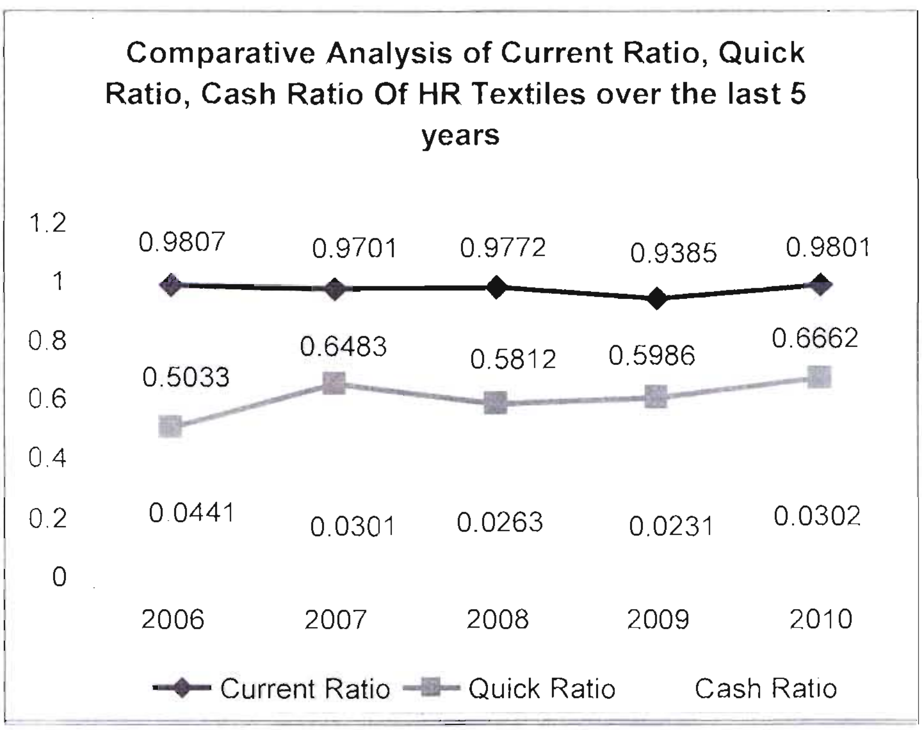
Similarly, however, there was a slight dip in the 2010. However, we do know about the limitation of these ratios as stated before, so it cannot be concretely said whether these fluctuation were in fact for the company's current operations.

Liquidity Ratio

Findings:

Liquidity Ratio					
	2006	2007	2008	2009	2010
Current Ratio	0.9807	0.9701	0.9772	0.9385	0.9801
Quick Ratio	0.5033	0.6483	0.5812	0.5986	0.6662
Cash Ratio	0.0441	0.0301	0.0263	0.0231	0.0302

Analysis:



This graph depicts the entire scenario of the liquidity position of HR textiles over past five years. Analyzing each element as follows:

Current Ratio:

The current ratio of HR Textiles is below 1, as such first of all it indicates, that the liquidity position is not very concrete. However, there was not much of improvement or shortfall in this ratio.
The slight dip in the ratio in the year 2007 can be attributed to the decrease in stock and stores, and the significant increase in creditors and accrued expenses, dues to associated company and proposed dividend.

The other noticeable decrease in current ratio is in the year 2009, which may be mainly because of the momentous increase bills receivables discounted which rose by Tk 64,994,373.

The boost in this ratio occurred only last year due to improved cash and bank balances and trade debtors.

However, since the current ratio is below 1, it reflects the fact that it does not have adequate current assets to overcome its current liabilities.

Quick Ratio:

The quick ratio, however, has shown a greater degree of fluctuations. Its position was at a very vulnerable point at 2006, when its quick ratio was at its lowest: 0.5.

Quick ratio eliminates inventory and prepayments. It can be seen that in 2007, the ratio improved significantly (whereas, in the stated year, there was a decrease in current ratio). This can be attributed to the increase in trade debtors by Tk 56,971,598 and also that of export incentive receivables.

However, in the following consecutive years, the quick ratio decreased again. This may be ascribed to the significant increase in creditors, bills received discounted, dues to associated company and provision for taxation compared to increase in other current assets, generally for the year 2008 and 2009.

To the relief of its creditors, the quick ratio salvaged itself in 2010 due to a simultaneous increase in current assets: trade debtors, cash and bank balances; and a decrease in current liability in terms of: creditors, accrued expenses and proposed cash dividend.

Cash Ratio:

The cash ratio of HR Textiles was highest in the year 2006. In the following year it maintained the more or less 'decreasing' trend, not being able to recoup its initial position that of 2006.

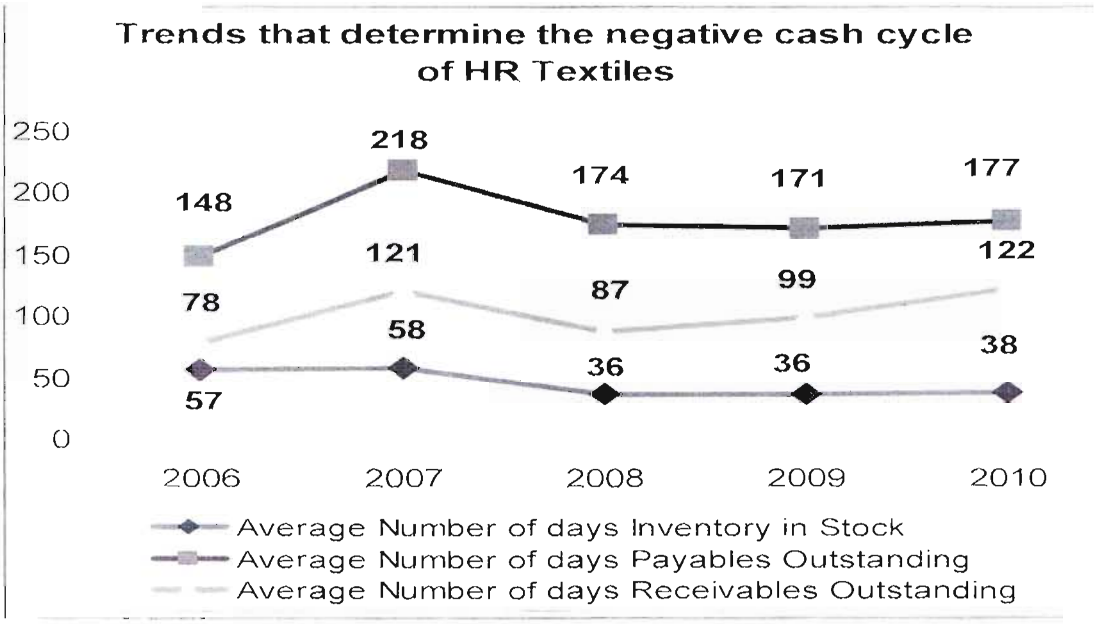
In 2007, the cash and bank balances decreased. It was more or less same in 2008, but due to a relative increase in current liabilities, the ratio plunged further more. In 2009, a slight increased in cash balances occurred, but this was not sufficient to compensate for the increase in current liabilities.

However, finally in 2010, the cash and bank balances rose by Tk 5,282,130 making the ratio healthier than before, at least.

Cash Cycle:

Year	2006	2007	2008	2009	2010
Cash Cycle	-13.128	-38.138	-50.947	-35.442	-16.625

As we know already, the shorter the cash cycle, the better. It relays the message that receivables are collected quickly, payment of payable are deferred. The best cash cycle was attained in the year 2008, whereby receivables were collected around 51 days before paying of payables.



HR Textile's cash cycle has been improving in this sector till 2008. From the year 2008, the disparity between collecting of receivables and payment of payables, started decreasing. This is in 2009 and 2010, payables were paid off merely 35 days and 16 days after collection of receivables.

Long Term Debt & Solvency Ratio

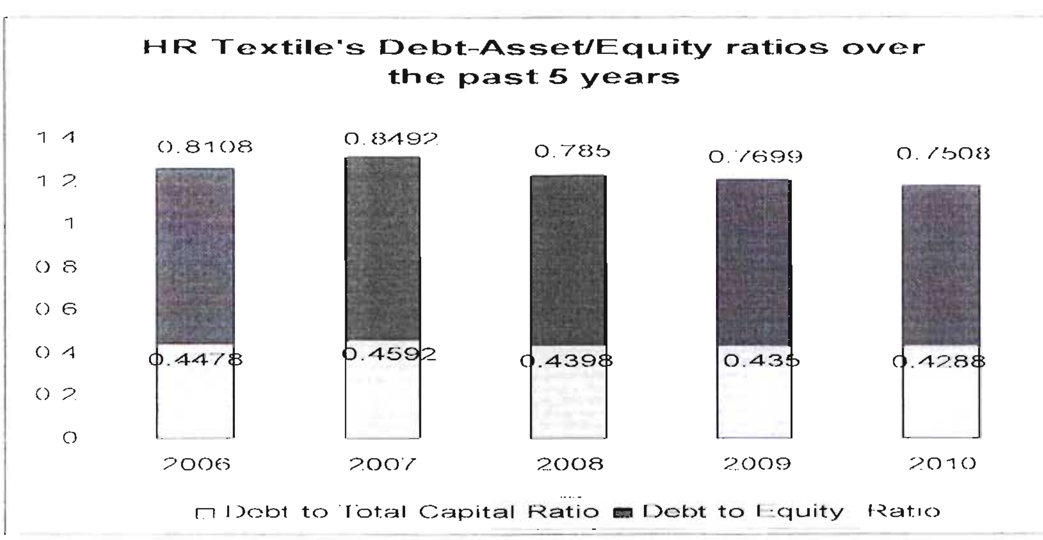
Findings:

Long Term Debt & Solvency Ratio	2006	2007	2008	2009	2010
Debt to Total Capital Ratio	0.4478	0.4592	0.4398	0.4350	0.4288
Debt to Equity Ratio	0.8108	0.8492	0.7850	0.7699	0.7508
Times Interest Earned Ratio	2.189	1.661	1.826	1.648	1.707
Fixed Charge Coverage Ratio	2.098	1.627	1.784	1.620	1.681
Cash Flow from Operations Debt Ratio	-0.0950	0.4364	0.2347	0.5527	0.2461

Analysis:

Debt to Total Capital Ratio and Debt to Equity Ratio:

Debt to Total Capital Ratio basically depicts, how much of the capital is financed bby creditors. It can be understood that at HR Textiles, almost half of their capital is financed by creditors: the rest via equity. They have been able to maintain a consistent rtaio of about 0.44.



Debt to Equity Ratio, on the other hand, measures, for every measure of equity, how much liability is borne by shareholders. Usually the lower the ratio better, as it indicates less risky. However, as can be seen, the debt-equity ratio is considerably high. It was the highest n the year 2007: 0.8492. This means that in 2007 for every Tk 1 invested, the shareholders of HR Textiles bore a liability of Tk 0.85.

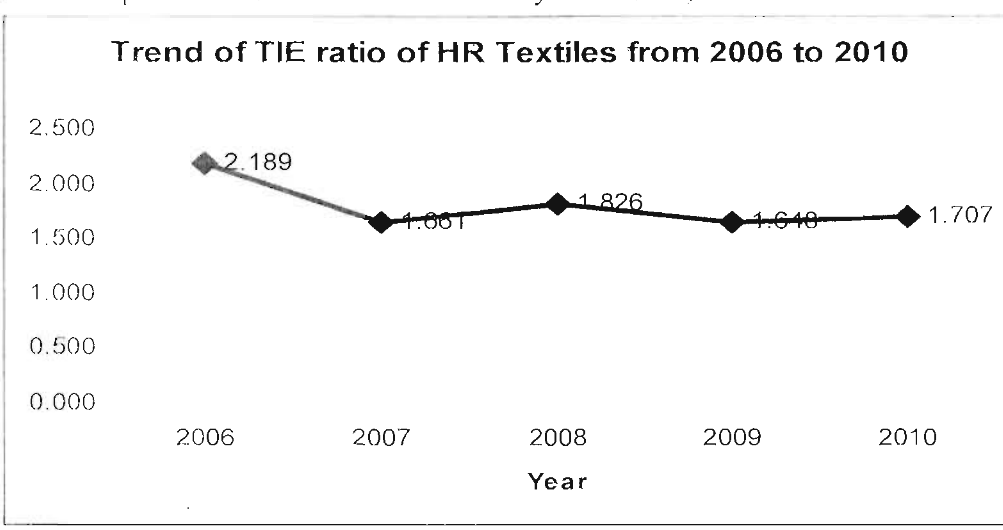
However, this ratio has been showing a decreasing trend from 2008 till date. This is because in 2008, the level of debt decreased by Tk 13,302,286.

Though in 2010 the total debt again rose by Tk. 9,251,796, the simultaneous increase in level of equity by Tk 18,706,564, thus gravitating the ratio on the lower end.

Times Interest Earned Ratio:

The TIE ratio graph, illustrate fluctuating pattern. Its TIE ratio was healthiest in 2006. Henceforth, it has been showing a decreasing trend with slight improvements at certain intervals. In the year 2008, the level of debt used by HR Textiles decreased, consequentially, decreasing the interest expense. Comparatively EBIT was higher in this particular year, resulting in a relative higher TIE ratio.

The resurgence of TIE ratio took place in 2010, whereby though the level of debt, as such interest expense rose, EBIT also elevated by Tk 13,298,542.



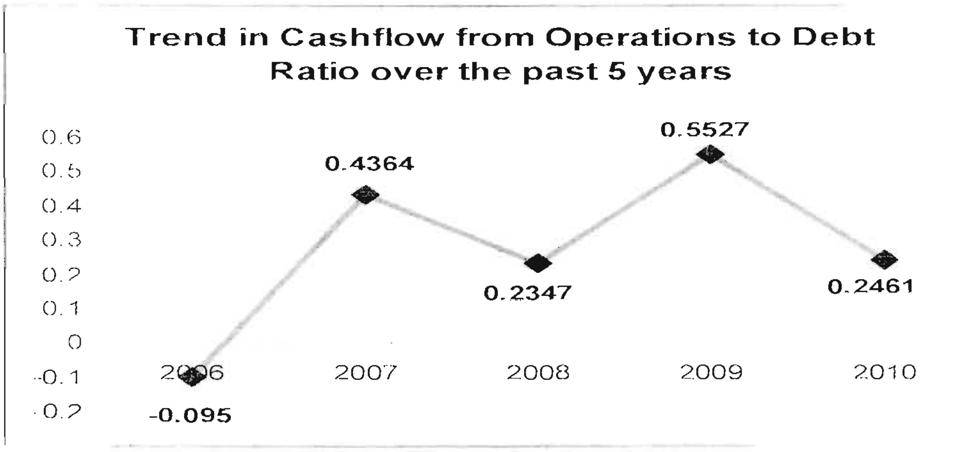
Cash Flow from Operations-Debt Ratio:

This ratio is a very important, as it indicates a vital information. It shows how much cash flow is available from operations to pay out debt. Obviously the higher the ratio, the more widespread the safety net for the loan providers. As can be deduced from the graph illustrated below, initially the cash flow from operations was negative, representing a very vulnerable state of HR Textiles. But this improved significantly in 2007. This can be attributed to the increased cash inflow from collection from customer and export incentive.

In 2008, though the level of debt decreased, a high volume of cash was dispersed for goods and services, resulting in a relatively low ratio.

In 2009, the cumulative effect of lower debt level and amplified cash flow from operating activities resulting in the achievement of the highest ratio during the last 5 years.

However, happy times did not last long, as the ration took a plunge in 2010 attributed to both a decrease in cash flow and increase in debt levels.



Profitability Ratio

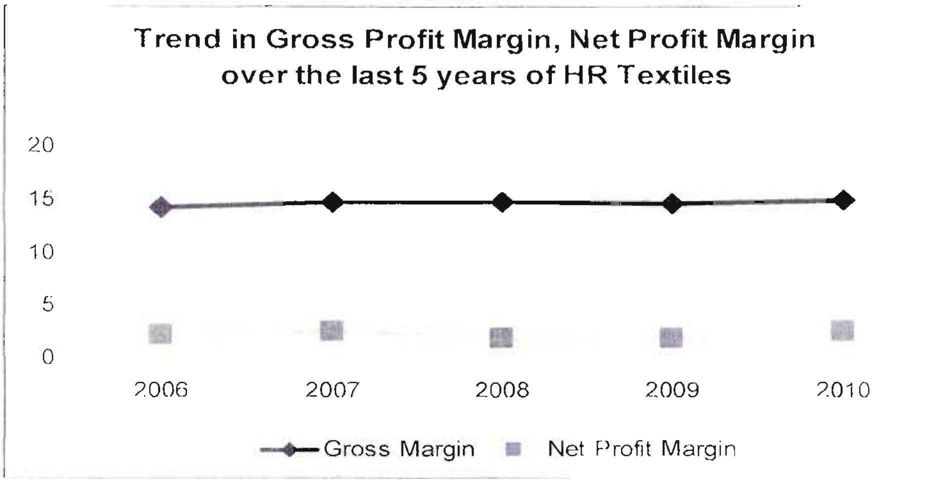
Findings:

Profitability Ratio					
	2006	2007	2008	2009	2010
Gross Profit Margin	14.235	14.789	14.822	14.700	14.961
Operating Margin	5.195	7.778	5.262	6.066	7.537
Margin before interest & tax	5.102	7.667	5.171	5.971	7.406
Pretax Margin	2.771	3.052	2.339	2.348	3.068
Net Profit Margin	2.355	2.595	1.988	1.996	2.607
Return on Asset	2.435	2.858	2.935	3.068	3.523
Return on Total Capital	7.925	12.543	13.264	16.839	18.653
Return on Equity	6.626	7.849	9.104	9.961	11.498
Return on Sales	2.355	2.595	1.988	1.996	2.607
Asset to Equity Ratio	3.125	3.479	3.764	4.131	4.078
Earnings Per Share	8.15	10.73	11.34	12.54	15.55

Analysis:

Gross Profit Margin

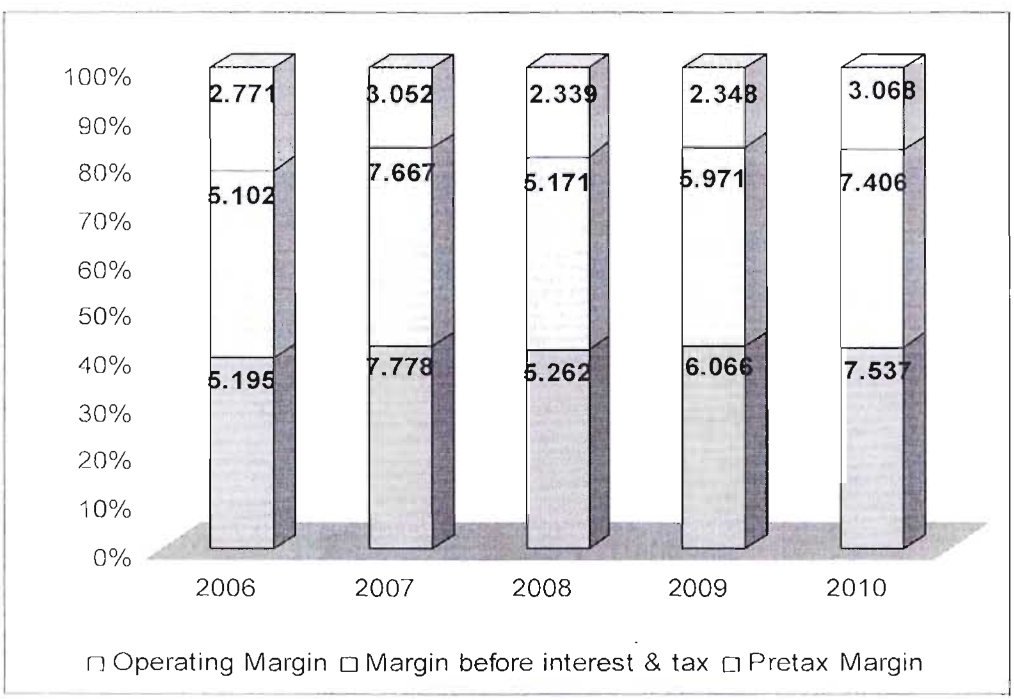
As can be deduced from the graph, the gross profit margin of HR Textiles is consistently increasing but at very low rate. As such it is more or less stagnant at an average rate of 14.7.



Operating Margin, Margin before interest & tax, Pretax Margin:

The bar graph clearly dictates the following:
In 2007 the gross margin. as such, the Operating Margin, Margin before interest & tax, Pretax Margin rose relatively in comparison to other years. This may be attributed to the augmented turnover. There were only slight variations in other expenses.

In 2010, also all the ratios improved credited to the fact that though sales decreased, cost of goods sold also reduced. Also, the expenses rose slightly, thus enhancing this ratio.

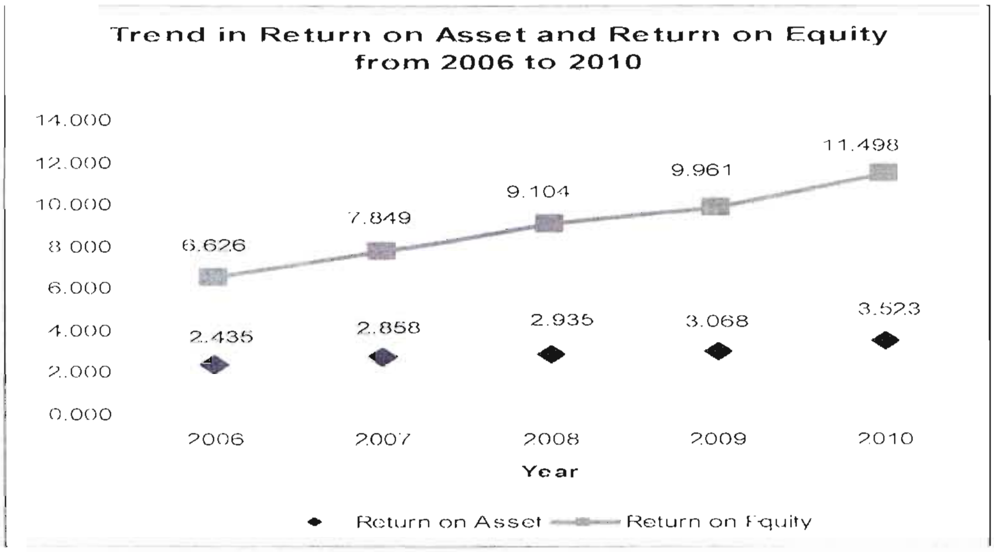


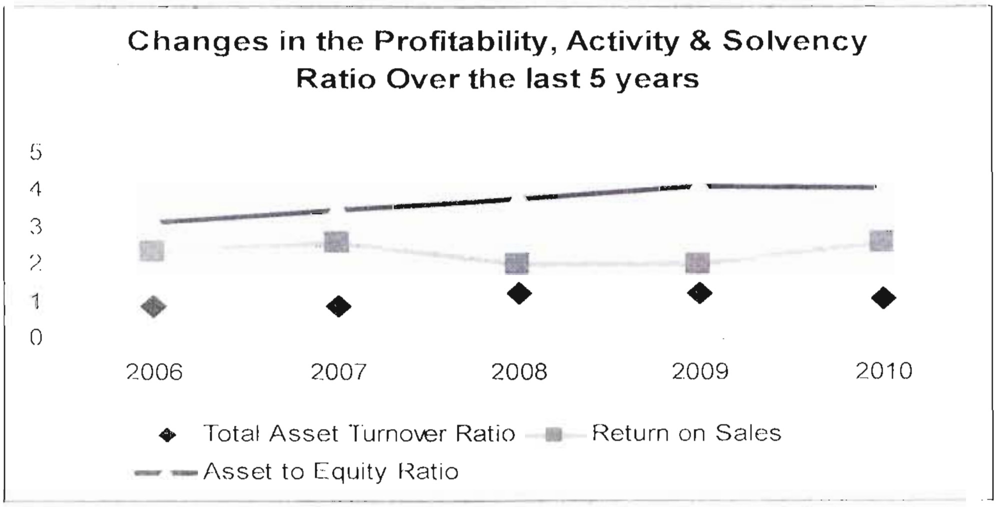
Return on Asset:

Generally, over the five years, this ratio has been increasing consistently, indicating greater return available to the creditors and the common shareholders of HR Textiles.
As discussed previously, if we disaggregate this ratio, we find that it is in fact the product of total asset turnover (activity ratio) and return on sales (profitability ratio).

The following graph depicts that there has been considerable fluctuation in both these ratio. Interestingly in the year 2008, return on sales decreased significantly related to the prior year indication inefficient expense management. However, in the same year total asset turnover ratio redeemed a certain portion on itself. In 2008, it generated Tk 396,432,357 more sales, though the increase in total asset was a mere Tk 82,072,266!

However, the tables turned in 2010, whereby return on sales augmented reflecting a firmer grasp on expense management, and total asset turnover slumped due to the decline in the level of sales.





Return on Equity:

Return on Equity for HR Textiles, has improved significantly over the past year thus bringing good news to the investors! As such more return was available to the common shareholders of HR Textiles. It was at its highest in 2010 at 11.5%. This means for every Tk 100 invested by the shareholder, they receive a return of Tk 11.5

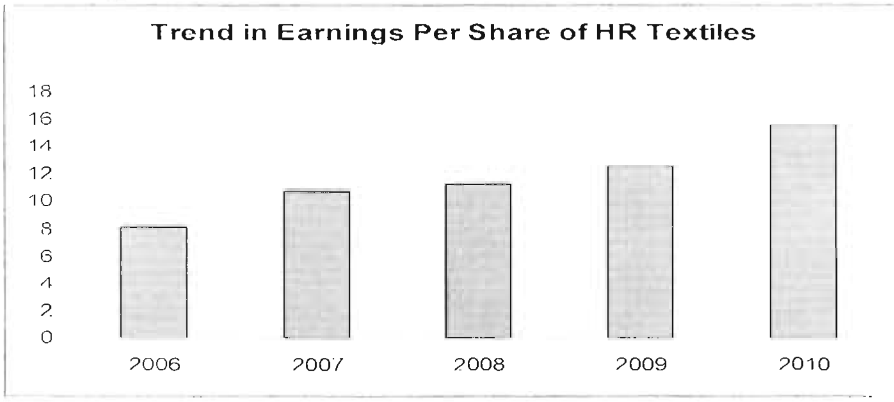
Desegregation of this ratio, results in the generation of 3 elements: total asset turnover (activity ratio) and return on sales (profitability ratio) and asset-equity ratio (solvency ratio).

In the explanation of Return on asset, the first two elements were discussed, as such, now we will focus on asset-equity ratio. As can be seen from the graph above, this ratio has been increasing consistently, with only a slight slump in 2010. this ratio basically indicates how much of the assets are financed by equity.

As we can see, from 2006 to 2009 it has been increasing constantly meaning, debt usage in HR Textiles had been augmenting. In 2010 total equity rose by Tk 18,706,564, resulting in a drop in this ratio.

Earning per Share:

As can be deduced from the bar graph below, the EPS has been increasing consistently, resulting in the highest return in 2010 of Tk 15.55 per share.

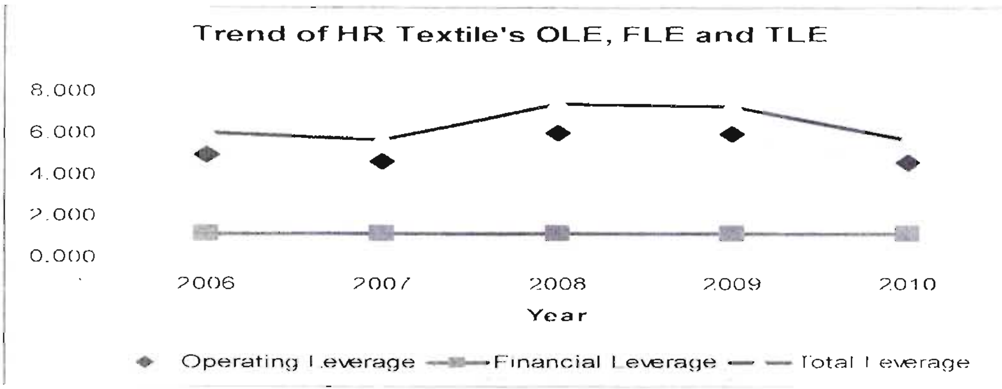


Operating Leverage, Financial Leverage & Total Leverage:

Findings:

	2006	2007	2008	2009	2010
Operating Leverage	4.970	4.674	6.099	6.018	4.678
Financial Leverage	1.216	1.219	1.222	1.224	1.227
Total Leverage	6.044	5.700	7.455	7.365	5.738

Analysis:



Operating Leverage Effect (OLE):

Operating leverage measure a certain percentage change of operating profit that occurs due to a certain percentage of change in the sales revenue. Major reason for any leverage effect to exist is due to the existence of fixed cost in the firms total cost structure. HR Textile has relatively high leverage. It was the highest in 2008, when for 1% change in sales. EBIT changed by 6.099%. Fortunately in 2010, this ratio decreased to 4.678 reflecting the fact that the risk borne decreased considerably from previous year.

Financial Leverage Effect (FLE):

Financial leverage measures certain percentage changes in net income that occurs due to a percentage change in operating profit. HR Textiles has a relatively low financial leverage. This means for changes in EBIT Net Income will not be affected much.

Total Leverage Effect (TLE):

This ratio shows how changes in sales will effect changes in Net Income. The fluctuation observed in TLE is all attributed to the variable OLE. since FLE is more or less contant. The greatest risk is in 2008 whereby if sales changes by 1 %. Net Income will alter by 7.5%.

Inventory Analysis:

HR Textiles follows the weighted average method to vale its inventories. It values the stocks at lower of weighted average cost and net realizable vale. The cost of work in process includes material and proportionate conversion cost. Finished goods include material and conversion cost.

As the company has used weighted average method to value its inventory. there is no impact creating differences in the financial statements. So to analyze the performance of the company with other companies in the textile industry. no adjustments have to be made to make the financial statement comparable.

5.0 Saiham Textiles Ltd.

Conducte By: Ayesha Akhter

Saiham Group of Industries is a renowned company of Bangladesh involved in manufacturing of cotton yarn, polyester yarn & jute yarn/twine. Saiham Group has set up modern manufacturing facilities in aim to provide customers with excellent product and to create and continue a long lasting business relationship. The Industries of the group are situated in Noyapara under Habiganj district of Bangladesh.

This modern composite Textile Mill was established in 1982 with New Japanese machineries with a capacity of producing 7 million yards of finished fabrics per year. In 1992, a modern Yarn Spinning Unit with 30,000 spindles equipped with Japanese machinery was added in the Textile Unit. This mill produces cotton and polyester yarns for domestic and export market. Currently the management of this industrial unit is in a process of turning the entire Textile Mill into a Yarn-Spinning Mill.

To manufacture quality yarns the management uses lean manufacturing methods, statistical process control, total preventive maintenance and statistical quality control in their factory production line. This helps to maintain the high-class quality that is demanded by various customers.

Company Mission, Vision

Mission

Developing and promoting the textile sector of the national economy by enhancing corporate, moral and ethical values; catering to customers need through manufacturing and supplying of quality products; maximizing shareholders' interest and ultimately bringing about changes in the quality of life in Bangladesh.

Vision

To become the undisputed leader in textile sector providing products to the global world.

Operational Highlights			
General		Financial	
Year of Incorporation	1982	Authorized Capital	**375 Million**
Initial Public Offering of Share	1986	Paid up Capital	**62,5 Million**
Enlistment with DSE and CSE	1988		

A Glance at Saiham Textile's Ratio Analysis:

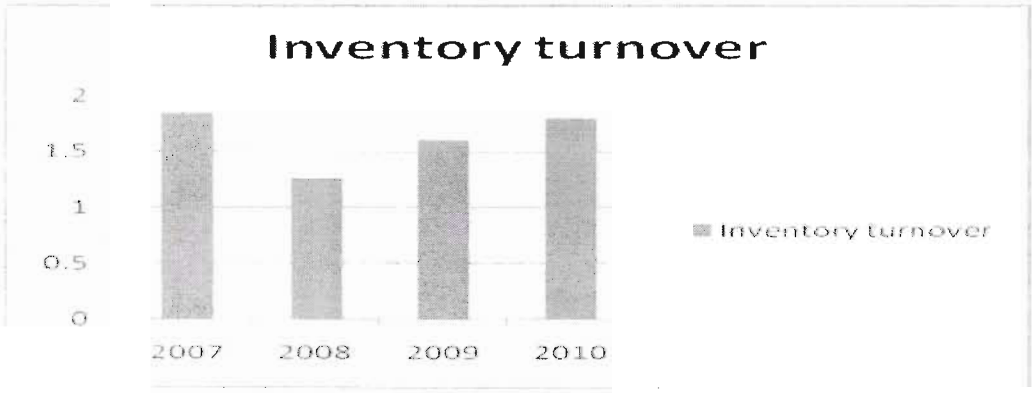
Activity Ratios

Short Term (operating) Activity Ratios

Particulars	2007	2008	2009	2010
Inventory turnover	1.8446	1.2627	1.6084	1.8012
Average inventory in stock	198	289	227	203
Receivable Turnover	7.0600	12.87894	16.9032	4.2660
Average number of days Receivables Outstanding	52	28	22	86
Payable Turnover	3.5780	4.7955	6.0087	2.9033
Average Number of days Payables Outstanding	102	76	60	126

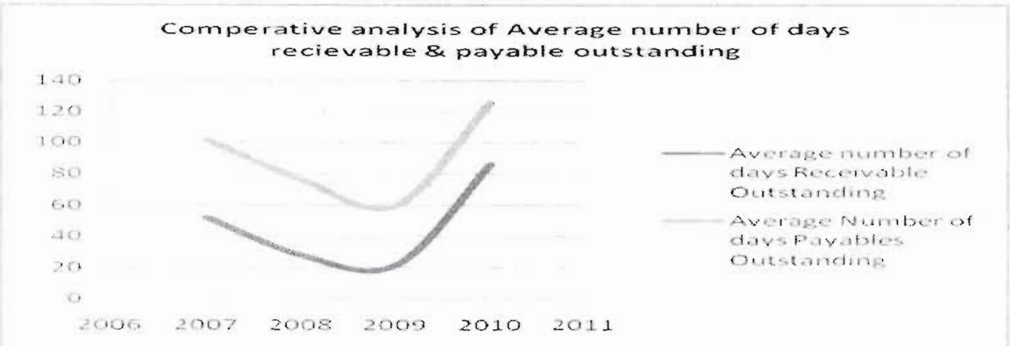
Analysis:

Inventory Turnover Ratio



From the graph inserted, we can say that there has been a significant decrease in the turnover ratio from 1.84 to 1.80. However, it is increased in the year 2010 from 2009. The ratio is more constant, thus indicating that the inventory became more mobile and efficient. For every year, the entire inventory process repeats 1 time in a year. As the inventory turnover ratio is higher better, because it shows the management efficiency of the firm. For Saiham textile, this lower ratio indicates management inefficiency.

Accounts Receivable Turnover and Accounts Payable Turnover



Accounts Receivable Turnover and Accounts Payable Turnover, is an important indication of how a company is managing its operation. The following chart depicts that Saiham Textiles. has been able to manage both these efficiently. A company always prefers if their accounts receivables turnover is higher than accounts payable. The graph shows the number of days required to collect the receivables of Saiham Textile is lower than its time to pay the payables, which indicates that Saiham Textile got longer time to pay its payables. Thus, it has increased its credit flexibility. It collects the receivables approximately 76 days before paying its payables.

Long Term Activity Ratios

Particulars	2007	2008	2009	2010
Fixed Asset Turnover	1.1610	1.3631	1.2104	1.5124
Total Asset Turnover	0.6672	0.6688	0.6577	0.7188

Analysis:

Fixed Asset Turnover and Total Asset Turnover

The Fixed Asset Turnover ratio as well as the Total Asset Turnover ratio improved significantly over the past 4 years except 2009. It has improved significantly in 2010; this was the year for progress concerning the discussing ratios. This means that it can been able to better utilize its assets to generate sales. Saiham Textile is going for a better position to manage its fixed asset and total asset.

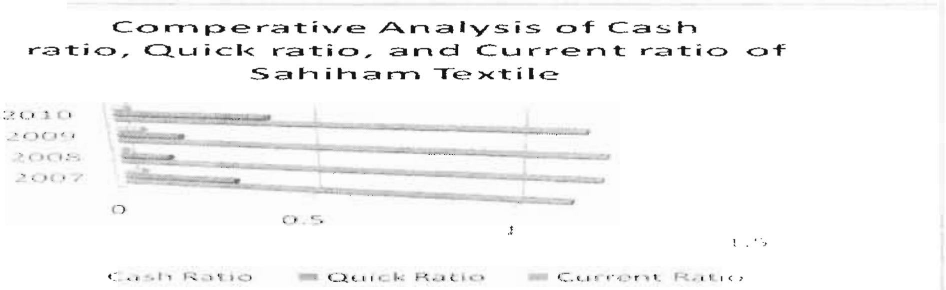
Similarly, however, there was a slight dip in the 2008.

However, we know about the limitation of these ratios as stated before, so it cannot be concretely said whether these fluctuation were in fact for the company's current operations.

Liquidity Ratios

Particulars	2007	2008	2009	2010
Current Ratio	1.125	1.187	1.193	1.145
Quick Ratio	0.3036	0.1309	0.1689	0.4024
Cash Ratio	0.0536	0.0099	0.0672	0.0348

Analysis:



This graph depicts the entire scenario of the liquidity position of Saiham textiles over past four years. Analyzing each element as follows:

Current Ratio

The current ratio of Saiham Textiles is above 1 that indicates the liquidity position is very concrete. However, there was not much of improvement in year 2008 and 2009, and falls in 2010. The boost in this ratio occurred in 2008 and 2009 due to improved cash and bank balances and trade debtors.

The other noticeable decrease in current ratio is in the year 2010, which may be mainly because of the increase bills receivables discounted which rose by Tk 25,945,446.
However, since the current ratio is above 1, it reflects the fact that it has adequate current assets to overcome its current liabilities.

Quick Ratio

The quick ratio, however, has shown a greater degree of fluctuations. Its position was at a very vulnerable point at 2008, when its quick ratio was at its lowest 0.1309.

Quick ratio eliminates inventory and prepayments. It can be seen that in 2009, the ratio improved slightly. Tk 25,467,983 and that of export incentive receivables can attribute this to the increase in trade debtors.

However, in the following year 2010, the quick ratio increased significantly. This may be ascribed to the significant decrease in creditors and increase in current assets.

Cash Ratio

The cash ratio of Saiham Textiles is very vulnerable. It changes year to year. The cash ratio was highest in the year 2009. In 2008, the cash and bank balances decreased significantly. However, due to a relative increase in current liabilities, the ratio plunged further more. In 2010, a slight decreased in cash balances occurred, which was not sufficient to compensate for the increase in current liabilities.

Cash Cycle:

Year	2007	2008	2009	2010
Cash Cycle	148	241	189	163

As we know already, the shorter the cash cycle is better. It relays the message that receivables are collected quickly, payment of payable are deferred. However, Saiham Textile pays its payables earlier then collects its receivables. The best cash cycle over the last four years was attained in the year 2007, whereby receivables were collected around 148 days after paying of payables.
Saiham Textile's cash cycle is not the improved one. It has positive cash cycle that fluctuates over years.

Long Term Debt and Solvency Ratio

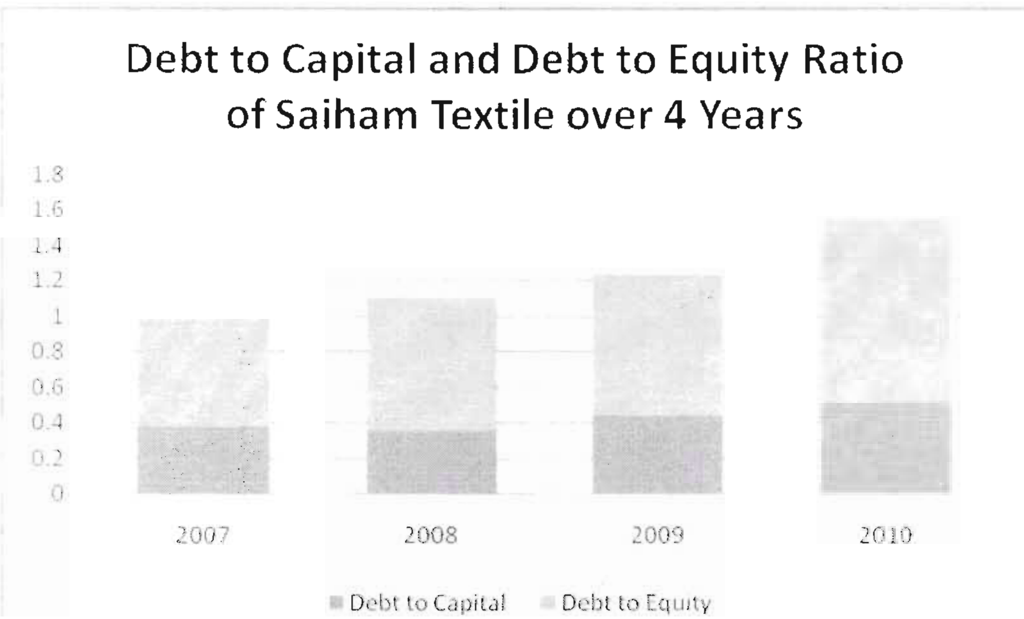
Particulars	2007	2008	2009	2010
Debt to Capital	0.378	0.357	0.442	0.508
Debt to Equity	0.608	0.752	0.793	1.033
Times Interest Earned	2.7416	2.7763	2.6283	2.8421
Fixed Charge Coverage	1.5762	1.6893	1.6291	1.9713
CFO to debt	0.062	-0.140	0.446	0.145

Analysis:

Debt to Total Capital Ratio and Debt to Equity Ratio

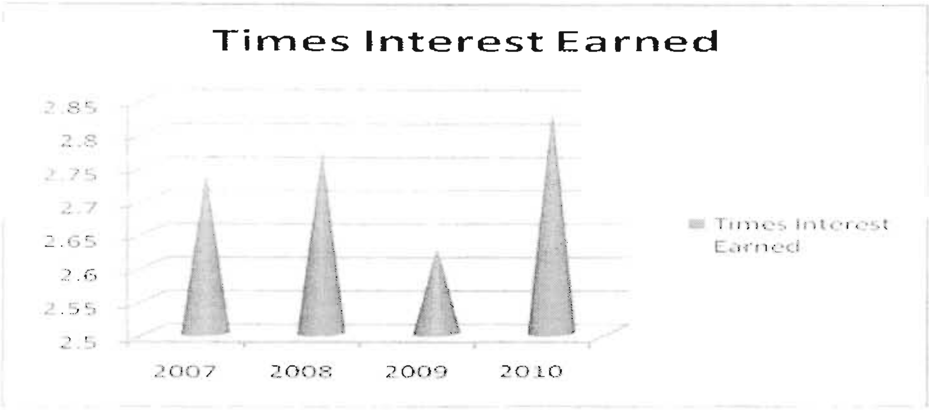
Debt to Total Capital Ratio depicts how much of the capital is financed by creditors. It can be understood that at Saiham Textiles, almost half of their capital is financed by creditors: the rest via equity.

Debt to Equity Ratio measures how much liability is borne by shareholders. Usually the lower the ratio better, as it indicates less risky. However, as can be seen, the debt-equity ratio is considerably lower than 1. It was the highest in the year 2010: 1.033. This means that in 2010 for every Tk 1 invested, the shareholders of Saiham Textiles bore a liability of Tk 1.033.



However, this ratio has been showing an increasing trend for last four years.

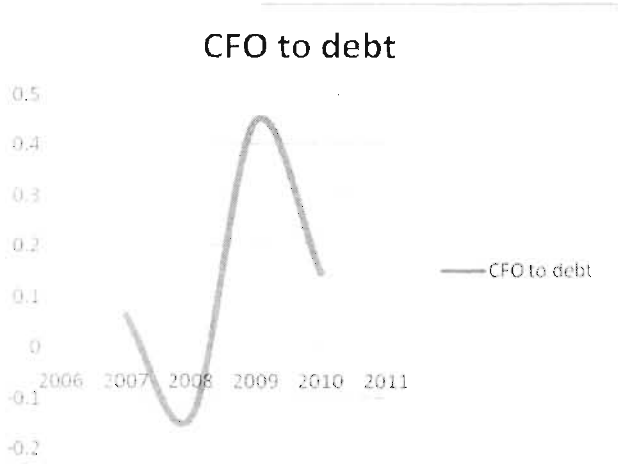
Times Interest Earned Ratio



The TIE ratio, illustrate fluctuating pattern. Its TIE ratio was lowest in 2009 for the last four years. Henceforth, it has been showing an increasing trend from 2007 to 2008 and then a slight decrease in 2009 at certain intervals. In the year 2010, the level of debt used by Saiham Textiles decreased, consequentially, decreasing the interest expense. Comparatively EBIT was higher in this particular year, resulting in a relative higher TIE ratio.

Cash flow from Operations to Debt Ratio

This ratio indicates how much Cash flow is available from operations to pay out debt. Obviously the higher the ratio, the more widespread the safety net for the loan providers. As can be deduced from the graph illustrated below, initially the Cash flow from operations was positive, representing a good state of Saiham Textiles. However, this decreased significantly in 2008 to the negative point. This can be attributed to the increased cash outflow for the payments of purchase.



In 2009, a high volume of cash was accumulated from turnover of goods and services, resulting in a relatively high ratio.

However, happy times did not last long, as the ration took a plunge in 2010 attributed to both a decrease in Cashflow and increase in debt levels.

Profitability Ratio

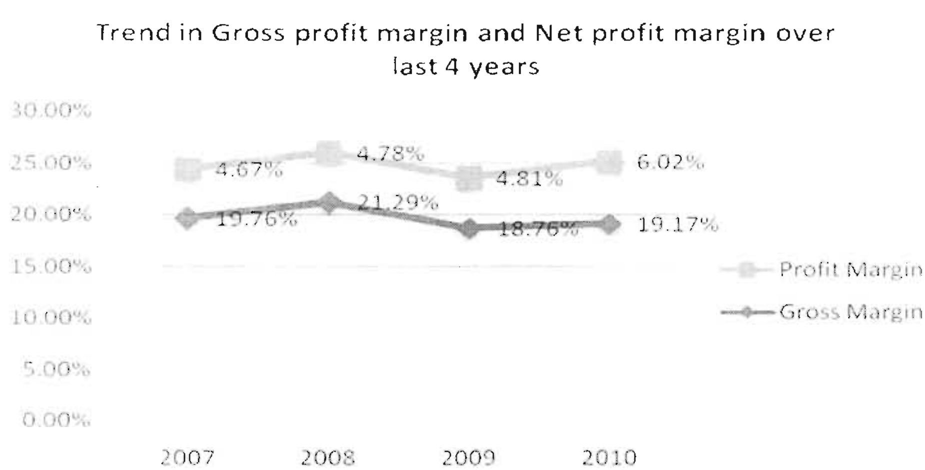
Return on Sales

Particulars	2007	2008	2009	2010
Gross Margin	19.764	21.292	18.764	19.172
Operating Margin	5.598	5.780	3.627	6.692
Margin before interest and tax	5.764	5.908	5.591	6.692
Pretax Margin	5.490	5.626	5.324	6.324
Profit Margin	4.666	4.782	4.806	6.023

Analysis:

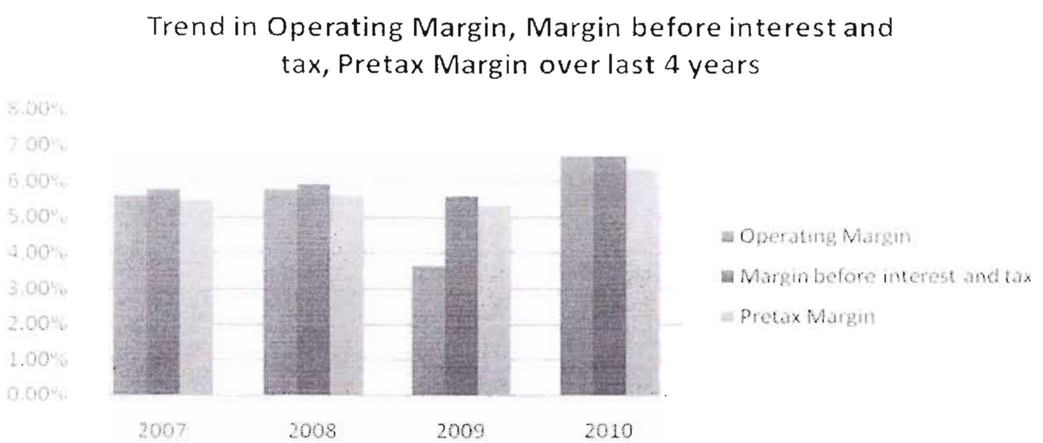
Gross Profit Margin and Net Profit Margin

As can be deduced from the graph, the gross profit margin of Saiham Textiles is consistently increasing and decreasing over times. It was highest in 2008 at the rate of 21.292.



Net Profit margin of Saiham Textile is increasing over last four years and was the highest in 2010 at the rate of 6.023.

Operating Margin, Margin before interest & tax, Pretax Margin



The bar graph clearly dictates the following:

In 2010, the gross margin, as such, the Operating Margin, Margin before interest & tax, Pretax Margin rose relatively in comparison to other years. This may be attributed to the augmented turnover. There were only slight variations in other expenses.

In 2009, the operating margin was significantly lowest than other three years. There may be lower profit of Saiham Textile from its core business in this year. These entire three margins are excluded from the effects of tax.

Return on Investment

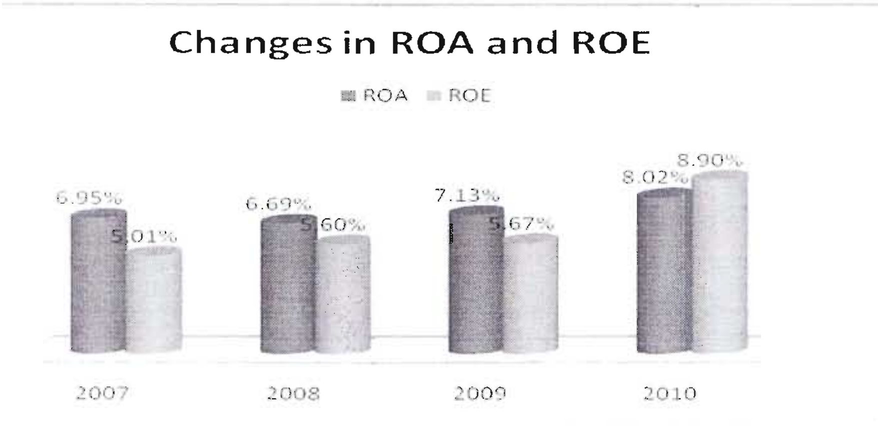
Particulars	**2007**	**2008**	**2009**	**2010**
ROA	6.951	6.687	7.126	8.016
ROTC	3.846	3.952	3.677	4.810
ROE	5.006	5.603	5.667	8.904
Asset to Equity	1.6080	1.7517	1.7926	2.0330

Analysis:

Return on Asset

Generally, over the last three years, this ratio has been increasing consistently, indicating greater return available to the creditors and the common shareholders of Saiham Textiles.

As discussed previously, if we disaggregate this ratio, we find that it is in fact the product of total asset turnover (activity ratio) and return on sales (profitability ratio).



The graph depicts that there has been considerable fluctuation in activity ratio. Interestingly in the year 2009, total asset turnover decreased significantly related to the prior year indication inefficient asset management. However, in the same year return on sales ratio redeem a certain portion on itself. In 2008, it generated Tk 28,841,303 more sales, though the increase in total asset was a mere Tk 59,253,259.

However, the tables turned in 2010, whereby return on sales augmented reflecting a firmer grasp on expense management, and total asset turnover improved due to the increase in the level of sales.

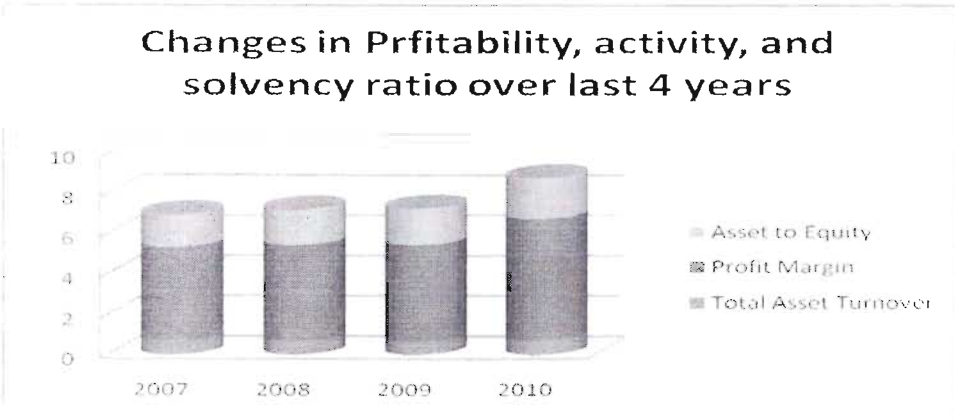
Return on Equity:

Return on Equity for Saiham Textiles, has improved significantly over the past year. As such, more return was available to the common shareholders of Saiham Textiles. It was at its highest in 2010 at 8.9%. This means for every Tk 100 invested by the shareholder, they receive a return of Tk 8.9.

Desegregation of this ratio, results in the generation of 3 elements: total asset turnover (activity ratio) and return on sales (profitability ratio) and asset-equity ratio (solvency ratio).

In the explanation of Return on asset, the first two elements were discussed, as such, now we will focus on asset-equity ratio. As can be seen from the graph above, this ratio has been increasing consistently, with only a slight slump in 2010. This ratio indicates how much of the assets are financed by equity.

As we can see, from 2007 to 2010 it has been increasing constantly meaning, debt usage in Saiham Textiles had been augmenting.

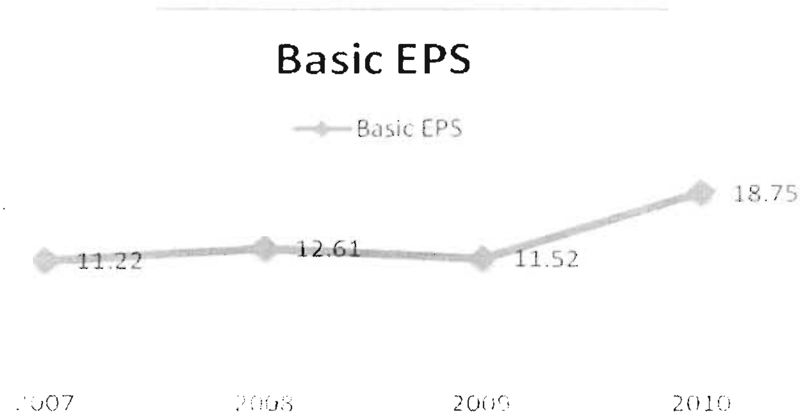


Earnings per share and other valuation model

Particulars	2007	2008	2009	2010
Basic EPS	11.22	12.61	11.52	18.75

Earnings per Share (in tk):

As can be deduced from the graph below, the EPS has been increasing consistently except the year 2009. resulting in the highest return in 2010 of Tk 18.75 per share.

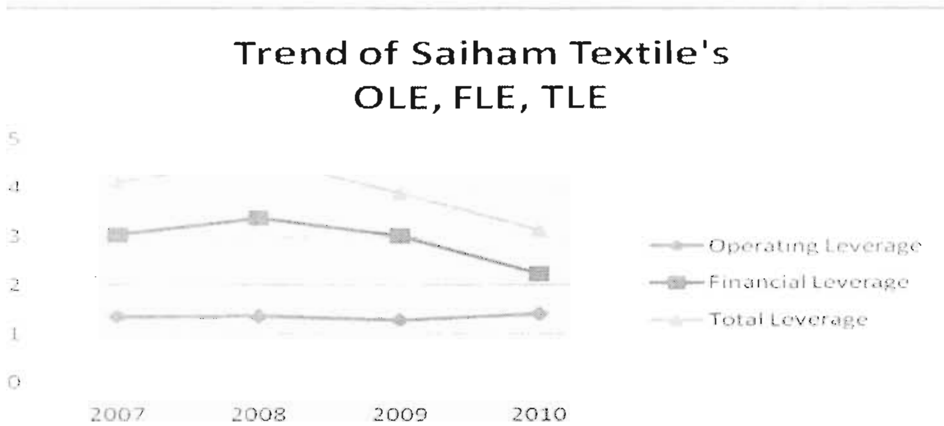


Operating Leverage, Financial Leverage & Total Leverage

Particulars	2007	2008	2009	2010
Operating Leverage	1.360	1.365	1.296	1.412
Financial Leverage	3.027	3.380	3.012	2.229
Total Leverage	4.116	4.614	3.903	3.147

Operating Leverage Effect (OLE)
Saiham Textile has relatively low leverage. This means for changes in sales. EBIT will not be affected.

Financial Leverage Effect (FLE)
Saiham Textiles has a relatively high financial leverage. It was highest in 2008 at 3.380. This means for 1% changes in EBIT, Net Income will change by 3.380%.



Total Leverage Effect (TLE):

The greatest risk is in 2008 whereby if sales changes by 1 %, Net Income will alter by 4.614%.

A glance at Saiham Textile Limited's Inventory Management

The inventories of Saiham Textile are carried at the lower of cost and net realizable value as prescribed by IAS 2: Inventories, cost is determined on weighted average cost basis. The cost comprises of expenditure incurred in the normal course of business in bringing the inventories to their present location and condition. Net realizable value is based on estimated selling price less any further costs expected to be incurred to make the sale.

BEXIMCO BEXTEX Ltd.

6.0 BexTex Limited

Conducted by: Md. Iftakharul Alam

BexTex Ltd. was incorporated in Bangladesh as a Public Limited Company with limited liability on 8 March 1994 and commenced commercial operation in 1995 and also went into the public issue of shares and debentures in the same year. The shares of the Company are listed in the Dhaka and Chittagong Stock Exchanges of Bangladesh.

BexTex Ltd. has a state of the art composite knit fabric production mill, which serves the growing needs of high-quality knit garments exporters in Bangladesh. The project was set up as a state of the art knit fabric knitting, dyeing and finishing facility. During the year, the Company produced and sold high quality of knit fabrics and bringing forth all the latest in hard and soft technologies in knitting, dyeing and finishing of knit fabric.

BexTex Ltd. also has cotton and polyester blended yarn-spinning mill, with 122,000 spindles is one of the largest spinning mills of the country. The mill was set up to feed the country's export oriented industries.

BexTex Ltd. produces specialized finishes of denim cloth for export in finished as well as cloth only form.

Company Mission, Vision

Mission

BEXTEX Ltd. is a full service vendor with strong vertically integrated production facilities as well as creative & analytical capabilities, which clearly sets us apart from most other South Asian vendors.

Vision

• Gain market leadership in high value added apparel in USA & Europe.

• Use "Innovation" & "Speed" as prime drivers, rather than cotton & cheap labor.

• Dominate these markets in high quality:

- Men's, Women's , Children
- Shirts (Dress & Casual)
- Blouses (formal & casual) , Skirts, Jackets
- Jeans & Casual non - denim bottoms
- Knitted tops & bottoms

Operational Highlights			
General		**Financial**	
Year of Incorporation	1984	Authorized Capital	**8000 Million**
Commercial Production	1990	Paid up Capital	**4,664.475 Million**
Stock exchange listing	**1989**		

A glance at BexTex Limited's Ratio Analysis

Activity Ratios

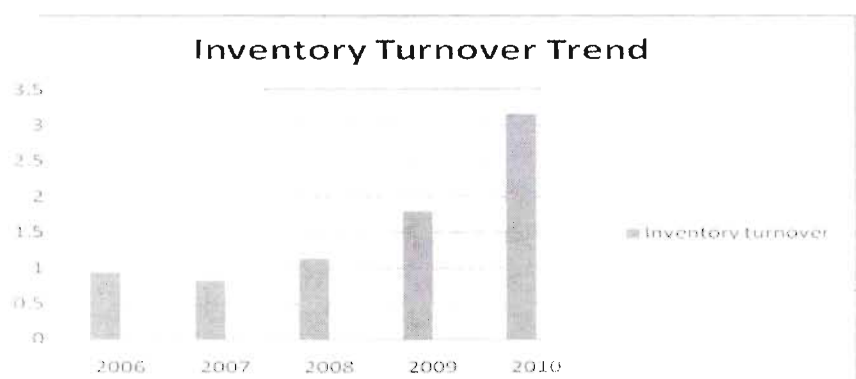
Short Term (operating) Activity Ratios

Particulars	2006	2007	2008	2009	2010
Inventory turnover	0.9287	0.8193	1.1306	1.80	3.1569
Average inventory in stock	393	445	322	202	115
Receivable Turnover	1.5264	1.236	1.2640	1.5776	2.8913
Average number of days Receivable outstanding	239	295	288	231	126
Payable Turnover	1.3785	1.5780	1.7955	1.0087	1.9033
Average number of days Payable outstanding	234	231	203	361	191

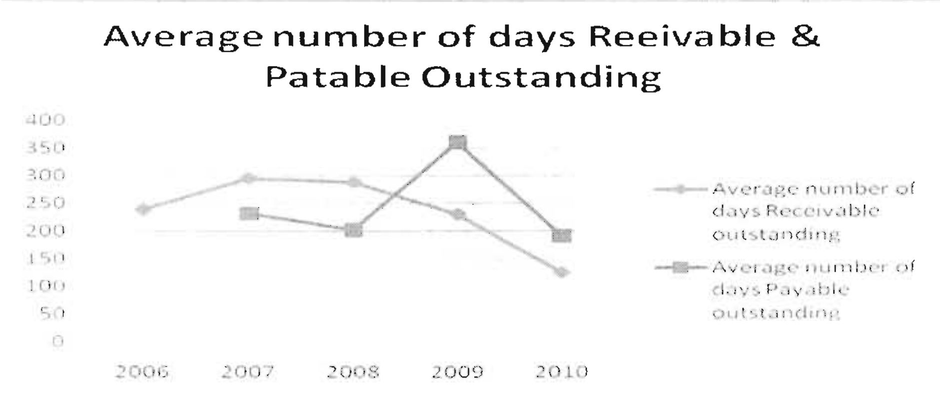
Analysis:

Inventory Turnover Ratio

From the graph inserted, we can say that there has been a significant increase in the turnover ratio from 0.93 to 3.16. However, it has significantly increased in the year 2010 from 2009 by 75%. The ratio is more constant, thus indicating that the inventory became more mobile and efficient. For every year, the entire inventory process repeats more than 3 times in the year 2010. As the inventory turnover ratio is higher better, because it shows the management efficiency of the firm. For BexTex ltd, this higher ratio indicates management inefficiency.



Accounts Receivable Turnover and Accounts Payable Turnover

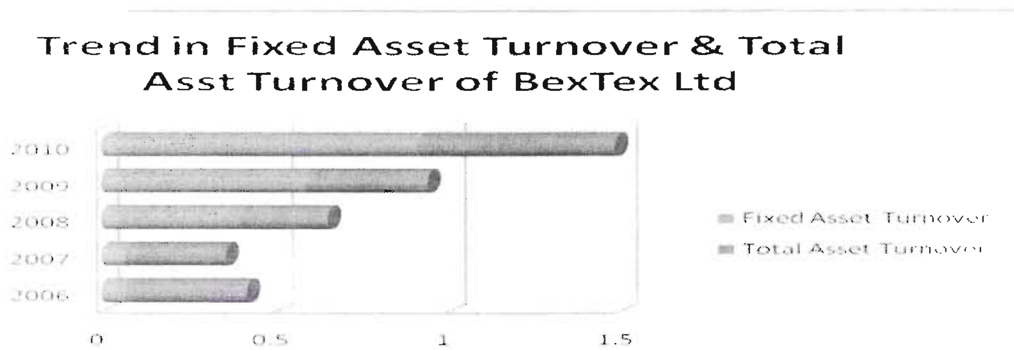


Accounts Receivable Turnover and Accounts Payable Turnover, is an important indication of how a company is managing its operation. The following chart depicts that BexTex ltd. has been able to manage both these efficiently. A company always prefers if their accounts receivables turnover is higher than accounts payable. The graph shows the number of days required to collect the receivables of BexTex ltd is lower than its time to pay the payables except 2009 and 2010, which indicates that BexTex ltd got longer time to collect its receivable. Thus, it has decreased its credit flexibility but increased in 2009 and 2010. It collects the receivables approximately 65 days before paying its payables in 2010.

Long Term Activity Ratios

Particulars	2006	2007	2008	2009	2010
Fixed Asset Turnover	0.071	0.068	0.403	0.586	0.913
Total Asset Turnover	0.348	0.290	0.250	0.355	0.574

Analysis:
Fixed Asset Turnover and Total Asset Turnover



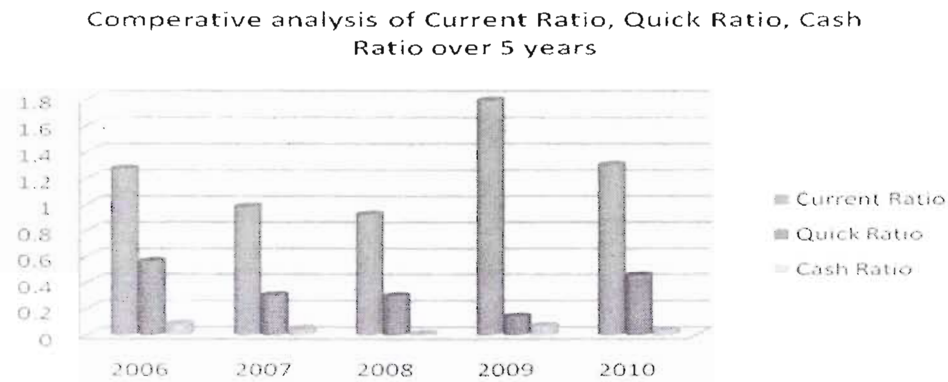
The Fixed Asset Turnover ratio as well as the Total Asset Turnover ratio decreased significantly over the past 5 years except 2009 and 2010. It has improved significantly in

2009 and then in 2010: this was the year for progress concerning the discussing ratios. This means that it can been able to better utilize its assets to generate sales. BexTex ltd is going for a better position to manage its fixed asset and total asset.

Liquidity Ratios

Particulars	2006	2007	2008	2009	2010
Current Ratio	1.27	0.98	0.92	1.79	1.30
Quick Ratio	0.5628	0.3030	0.2978	0.1375	0.4536
Cash Ratio	0.0836	0.0453	0.0087	0.0672	0.0356

Analysis:



This graph depicts the entire scenario of the liquidity position of BexTex ltd over past five years. Analyzing each element as follows:

Current Ratio

The current ratio of BexTex ltd is above 1 except the year 2007 and 2008 that indicates the liquidity position is very concrete in 2006, 2009, and 2010. However, there was a fall in 2010 from the previous year by 27%. The boost in this ratio occurred in 2009 due to improved cash and bank balances and trade debtors.

The other noticeable decrease in current ratio is in the year 2007, which may be mainly because of the increase bills receivables discounted which rose by Tk 35,995,496.

However, since the current ratio is above 1, it reflects the fact that it has adequate current assets to overcome its current liabilities in 2010.

Quick Ratio

The quick ratio, however, has shown a greater degree of fluctuations. Its position was at a very vulnerable point at 2008, when its quick ratio was at its lowest 0.1375.

Quick ratio eliminates inventory and prepayments. It can be seen the ratio had been decreasing from 2006 to 2009 because of increasing current liability.

However, in the following year 2010, the quick ratio increased slightly. This may be ascribed to the significant decrease in creditors and increase in current assets.

Cash Ratio

The cash ratio of BexTex ltd is very vulnerable. It decreased year to year up to 2008. The cash ratio was highest in the year 2006. In 2007, the cash and bank balances decreased significantly. However, due to a relative increase in current liabilities, the ratio plunged further more. In 2009, the ratio increased slightly by increasing current asset. However, in 2010, a slight decreased in cash balances occurred, which was not sufficient to compensate for the increase in current liabilities.

Cash Cycle

Year	2006	2007	2008	2009	2010
Cash Cycle	393	509	407	72	50

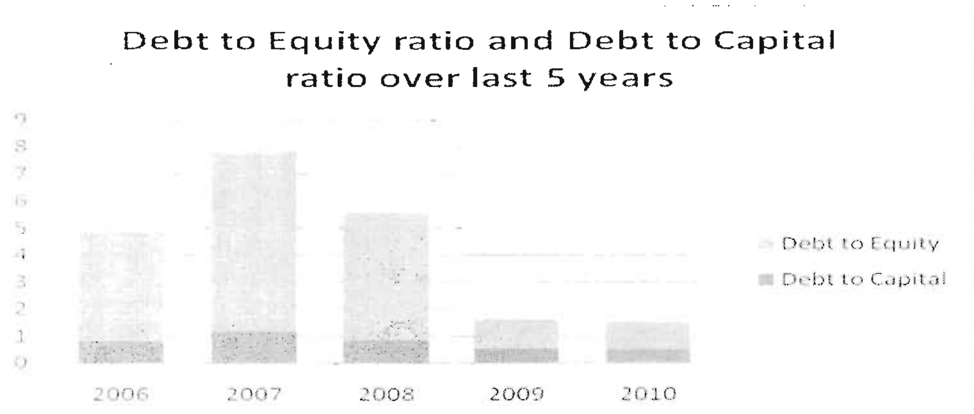
As we know already, the shorter the cash cycle is better. It relays the message that receivables are collected quickly, payment of payable are deferred. However, BexTex ltd pays its payables earlier then collects its receivables but reverse in 2009 and 2010. The best cash cycle over the last five years was attained in the year 2010, whereby receivables were collected around 50 days after paying of payables. BexTex ltd's cash cycle is not the improved one. It has positive cash cycle that fluctuates over years.

Long Term Debt and Solvency Ratio

Particulars	2006	2007	2008	2009	2010
Debt to Capital	0.802	1.151	0.824	0.519	0.501
Debt to Equity	4.053	6.638	4.693	1.083	1.005
Times Interest Earned	1.309	0.742	1.084	3.80	3.140
Fixed Charge Coverage	1.4567	1.0056	2.3575	2.0047	2.9800
CFO to debt	0.022	-0.032	-0.072	-0.067	0.317

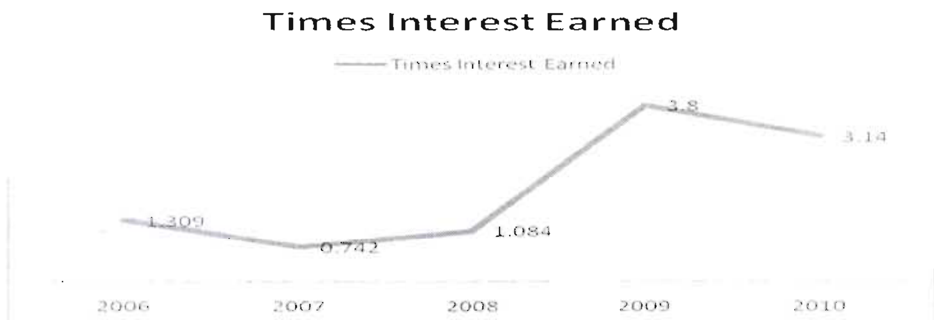
Analysis:

Debt to Total Capital Ratio and Debt to Equity Ratio



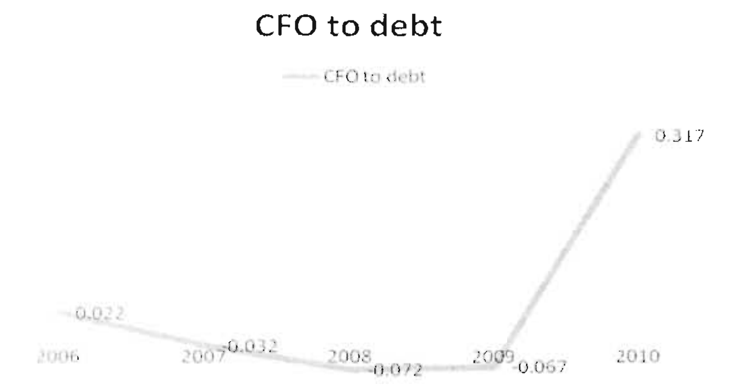
Debt to Total Capital Ratio depicts how much of the capital is financed by creditors. It can be understood that at BexTex ltd, more than half of their capital is financed by creditors; the rest via equity.
Debt to Equity Ratio measures how much liability is borne by shareholders. Usually the lower the ratio better, as it indicates less risky. However, as can be seen, the debt-equity ratio is much higher for the BexTex ltd and was lowest (which is not good for the company) in 2010 over the last five years. It was highest in 2007 indicates for every Tk 1 invested, the shareholders of BexTex ltd bore a liability of Tk 6.638.

Times Interest Earned Ratio



The TIE ratio, illustrate fluctuating pattern. Its TIE ratio was lowest in 2007 for the last five years. Henceforth, it has been showing an increasing trend from 2007 to 2009 and then a slight decrease in 2010 at certain intervals. In the year 2009, the level of debt used by BexTex ltd decreased, consequentially, decreasing the interest expense. Comparatively EBIT was higher in this particular year, resulting in a relative higher TIE ratio.

Cashflow from Operations to Debt Ratio
This ratio indicates how much Cashflow is available from operations to pay out debt. Obviously the higher the ratio, the more widespread the safety net for the loan providers. As can be deduced from the graph illustrated below, initially the Cashflow from operations was positive, representing a good state of BexTex ltd. However, this decreased significantly in 2007 to the negative point.



This can be attributed to the increased cash outflow for the payments of purchase. In 2010, a high volume of cash was accumulated from turnover of goods and services, resulting in a relatively high ratio.

4.0 Profitability Ratio

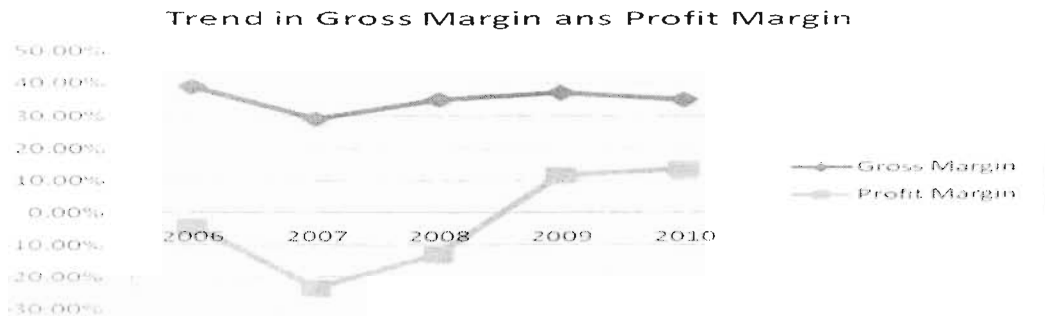
Profitability Ratios:

Return on Sales

Particulars	2006	2007	2008	2009	2010
Gross Margin	39.0%	29.2%	35.1%	37.2%	35.1%
Operating Margin	34.1%	23.3%	29.6%	33.3%	31.1%
Margin before interest and tax	34.1%	23.3%	29.6%	33.3%	31.1%
Pretax Margin	-3.9%	-23.0%	-12.8%	14.0%	15.7%
Profit Margin	-4.1%	-23.3%	-12.8%	11.9%	13.9%

Analysis:

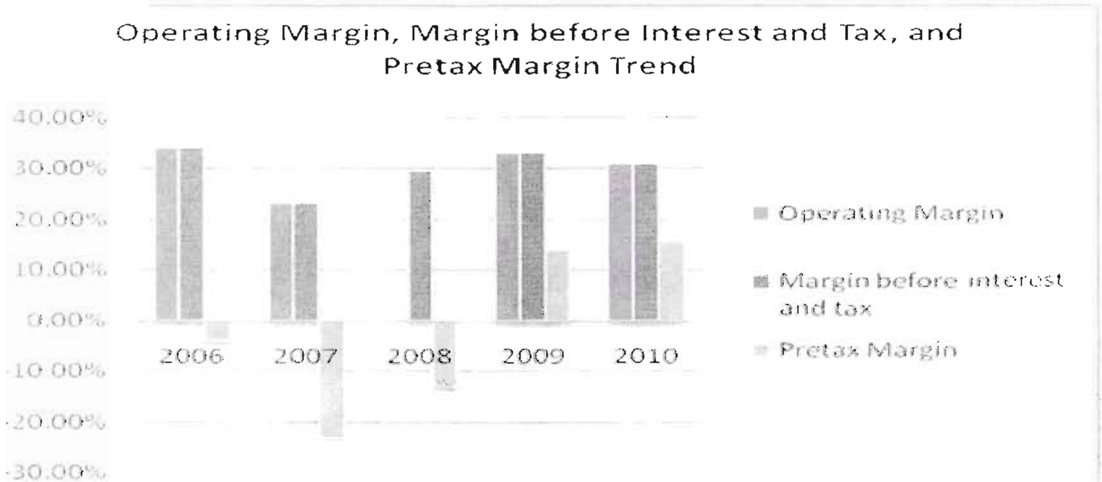
Gross Profit Margin and Net Profit Margin



As can be deduced from the graph, the gross profit margin of BexTex ltd is consistently decreasing and then increasing over times. It was highest in 2006 at the rate of 39.

Net Profit (loss) margin of BexTex ltd was negative from 2006 to 2008. It has increased significantly in 2009 and then in 2010.

Operating margin, Pretax margin, and Margin before interest & tax



The bar graph clearly dictates the following:

Operating margin and Margin before interest and tax is same for all five years, because there is no other income is added in the income statement of BexTex ltd. In 2006, the Operating Margin, and Margin before interest & tax, was relatively high than any other year at the rate of 34.1. Pretax Margin was negative from 2006 to 2007 and rose significantly in 2009 and then in 2010.

In 2007, the operating margin was significantly lowest than other four years. There may be lower profit of BexTex ltd from its core business in this year.

Return on Investment

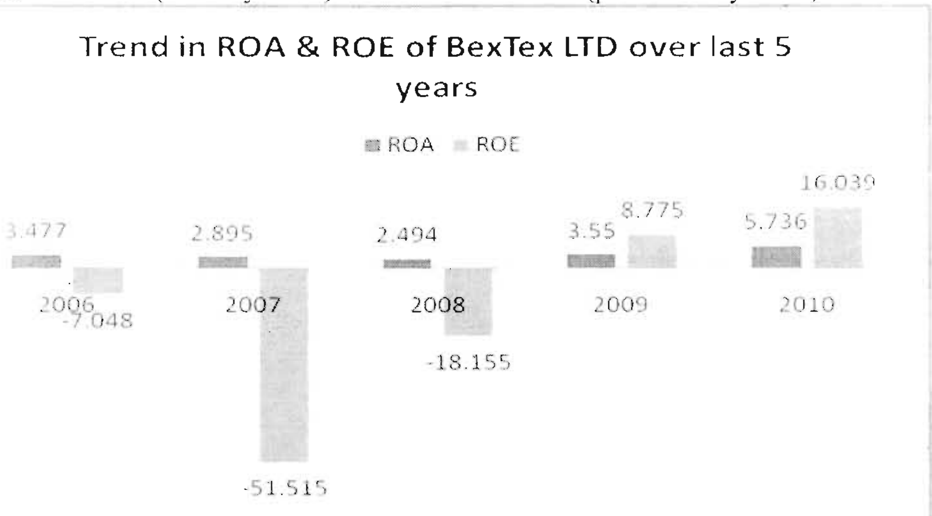
Particulars	2006	2007	2008	2009	2010
ROA	3.477	2.895	2.494	3.550	5.736
ROTC	11.86	6.758	7.384	11.805	17.861
ROE	-7.048	-51.515	-18.155	8.775	16.039
Asset to Equity	5.052	7.638	5.693	2.083	2.005

Analysis:

Return on Asset

Generally, over the last three years (2008-2010), this ratio has been increasing consistently, indicating greater return available to the creditors and the common shareholders of BexTex ltd.

As discussed previously, if we disaggregate this ratio, we find that it is in fact the product of total asset turnover (activity ratio) and return on sales (profitability ratio).



The graph depicts that there has been considerable fluctuation in activity ratio. Interestingly in the year 2008, total asset turnover decreased significantly related to the prior year indication inefficient asset management. However, in the same year return on sales ratio redeem a certain portion on itself. In 2008, it generated 11.56% more sales. However, the tables turned in 2010, both the return on sales augmented reflecting a firmer grasp on expense management, and total asset turnover improved due to the increase in the level of sales.

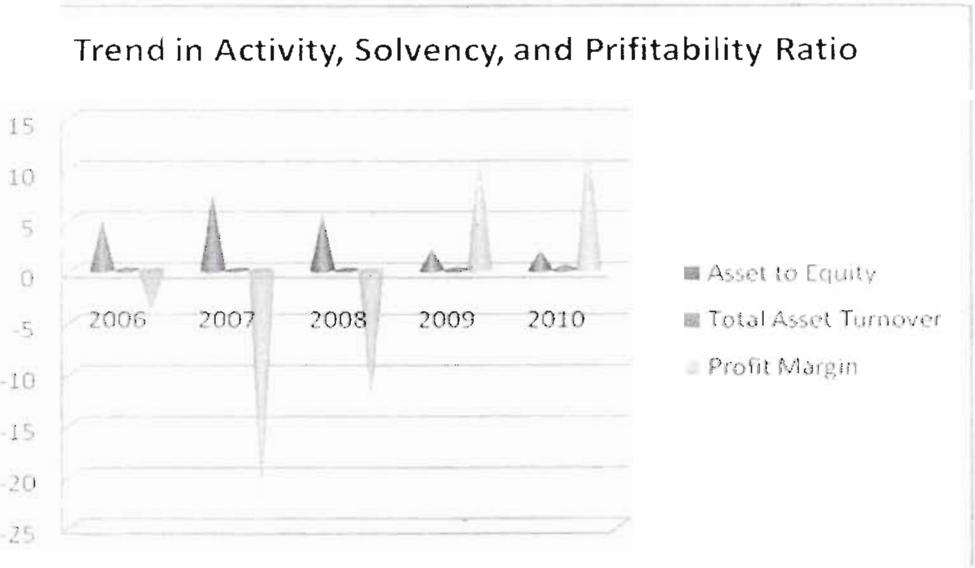
Return on Equity

Return on Equity for BexTex ltd, has decreased significantly from 2006 to 2008 and it was negative then. As such, there was no return to the common shareholders of BexTex ltd in those years. However, it rose significantly in2009 and then in 2010. It was at its highest in 2010 at 16.03%. This means that every Tk 100 invested by the shareholder, they receive a return of Tk 16.03.
Desegregation of this ratio, results in the generation of 3 elements: total asset turnover (activity ratio) and return on sales (profitability ratio) and asset-equity ratio (solvency ratio).

In the explanation of Return on asset, the first two elements were discussed, as such, now we will focus on asset-equity ratio. This ratio has been decreasing consistently, with only a slight slump in 2007 from 2006. This ratio indicates how much of the assets are financed by equity.

As we can see, from 2007 to 2010 it has been decreasing constantly meaning, debt usage in BexTex ltd had been reduced.

Graph of comparison analysis among the Activity, Solvency, and Profitability Ratios

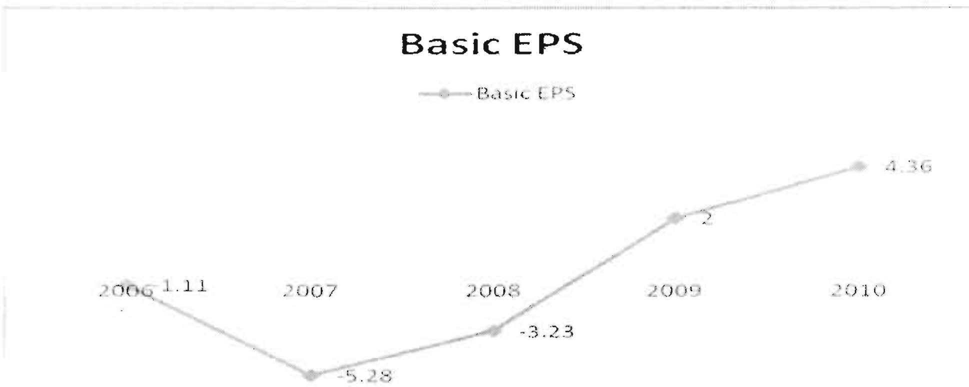


Earnings per share and other valuation model

Particulars	2006	2007	2008	2009	2010
Basic EPS	(1.11)	(5.28)	(3.23)	2.00	4.36

Earnings per Share (in tk)

As can be deduced from the graph below, the EPS has been fluctuating and was negative from the year 2006 to 2008. It rose significantly in 2009 and then resulting in the highest return in 2010 of Tk 4.36 per share.



Operating Leverage, Financial Leverage & Total Leverage

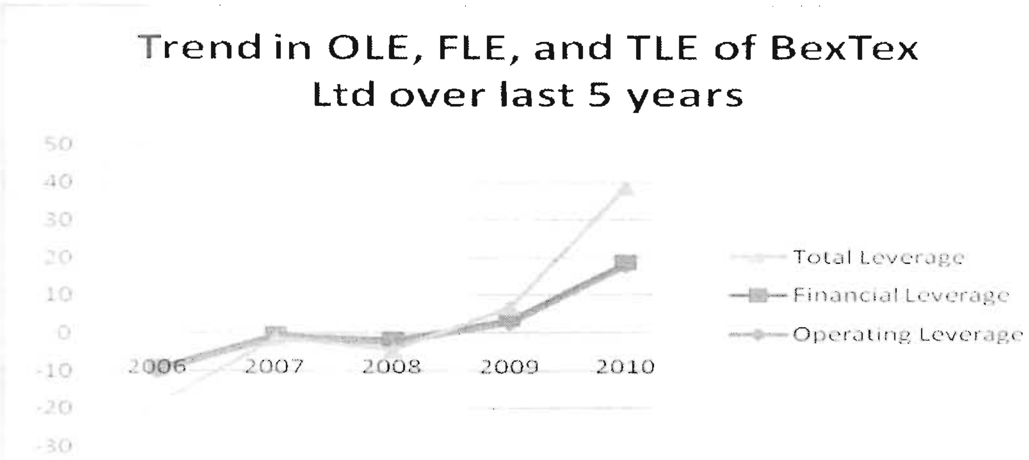
Particulars	2006	2007	2008	2009	2010
Operating Leverage	-10.11	-1.266	-2.744	2.667	17.725
Financial Leverage	0.962	0.989	1	1.176	1.126
Total Leverage	-9.725	-1.252	-2.744	3.136	19.958

Operating Leverage Effect (OLE)

BexTex ltd has relatively negative leverage from 2006 to 2008. It rose in 2009 and highly rose in 2010 at the rate 17. 725. This means that 1% change in sales will turn a change in EBIT by 17.725%.

Financial Leverage Effect (FLE)

BexTex ltd has a relatively low financial leverage. It was highest in 2010 at 1.126. This means that 1% changes in EBIT will turn a change in Net Income by 1.126%.



Total Leverage Effect (TLE):
The greatest risk is in 2010 whereby if sales changes by 1 %, Net Income will alter by 19.96%.

A glance at BexTex Limited's Inventory Management

The inventories of BexTex ltd are carried at the lower of cost and net realizable value as prescribed by IAS 2: Inventories, cost is determined on weighted average cost basis. The cost comprises of expenditure incurred in the normal course of business in bringing the inventories to their present location and condition. Net realizable value is based on estimated selling price less any further costs expected to be incurred to make the sale.

7.0 MONNO TEXTILES LTD.

(Conducted by Saima Parvin)

Monno Industries began in Bangladesh home market in 1985, and secured its first export order the following year. Monno soon earned an enviable reputation for both quality and value. As the original exporter 'Made in Bangladesh' Monno is proud to contribute to the growth of the Bangladesh economy. In a developing country the kudos accorded to exports and the valuable foreign exchange derived is significant. Today in Bangladesh Monno is a household name and regarded as one of the country's premier companies.

The Monno Group of companies includes, significantly, Monno Fabrics Ltd. and Monno Attire Ltd. as well as printing and packaging companies mutually supporting the activities of the Group. Monno is not therefore dependent on outside suppliers for labels or packaging, which helps to ensure orders are available on time.

VISION

Monno Group of companies sees business as a means to the well-being of the shareholders and all other stockholders, society as well as the national interest as a whole

MISSION

Monno Group of company's mission is to provide world class quality products to customers, strictly maintain ethical standard in business operations.

OBJECTIVE

Monno Group of company's objectives is to conduct transparent business operations within the legal and social framework with aims to attain the mission with a qualitative/quantitative target in business operations.

CORPORATE FOCUS

Monno Group of company's vision, mission and objective are to emphasize on the continuous development in making value addition to their products to keep well prepared for competitive world market

FINANCIAL MANAGEMENT POLICY

All financial policies like investment policy, dividend policy, and financing policy is to maximize the value of the organization.

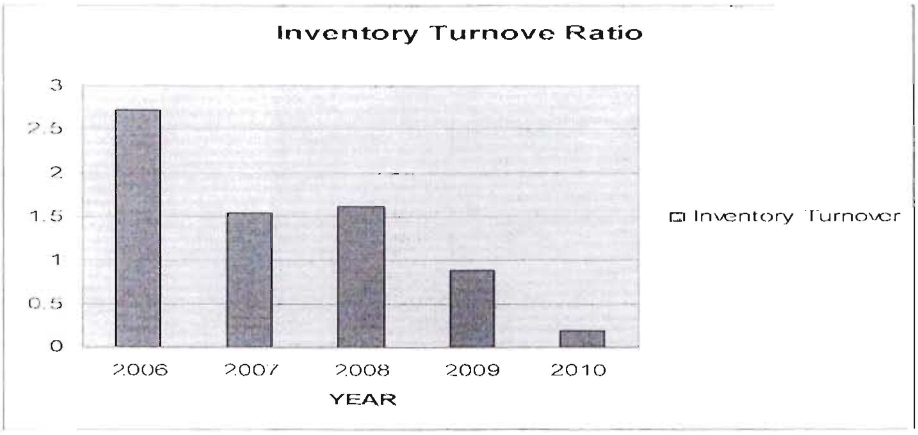
(1) Activity Analysis

Ratio	2006	2007	2008	2009	2010	Average
Inventory Turnover	2.73	1.54	1.61	0.89	0.19	6.96
Average No. Days Inventory In Stock	134	154	228	412	1946	575
Receivables Turnover	2.98	2.88	2.81	2.32	0.31	2.26
Average No. Days Receivables Outstanding	122	124	130	157	1189	344
Payable Turnover	5.15	3.17	1.63	1.30	0.23	2.30
Average No. Days Payables Outstanding	71	86	224	280	1569	446

Analysis:

Activity ratios describe the relationship between the firm's levels of operations (usually Defined as sales) and the assets needed to sustain operating activities. The higher the Ratio, the more efficient the firm's operations, as relatively fewer assets are required to Support a given level of operations (sales). Here several key activity ratios of MONNO Textile Bangladesh Ltd. are calculated with proper interpretations and implications in its business operations.

Inventory Turnover Ratio

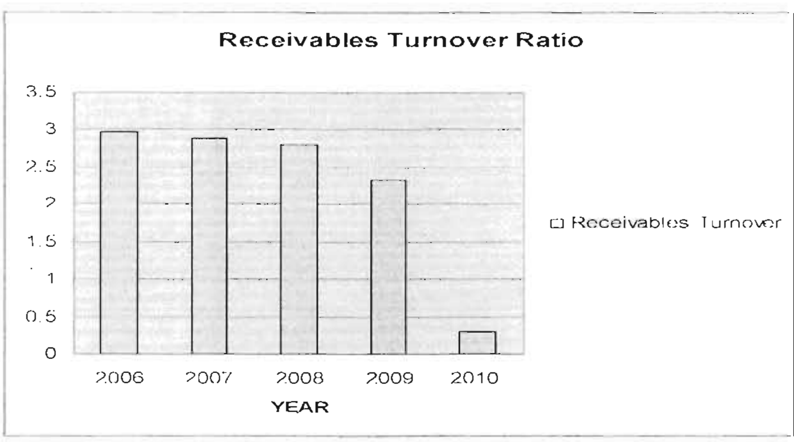


Turnover ratio was low during the year 2009 and 2010. Turnover ratio was high in 2006 which was 2.73. It indicates that during that period inventory management of the company was efficient more. But then ratio fell in 2009 and 2010. From 2006 to 2010 average Inventory Turnover ratio for the MONNO Textile was 6.96.

Average No. Days Inventory In Stock

For MONNO Textile this ratio is not steady .In the year 2006 and 2007 the company had a lower ratio but from 2008 it started to increase. In 2010 it reached at highest point.

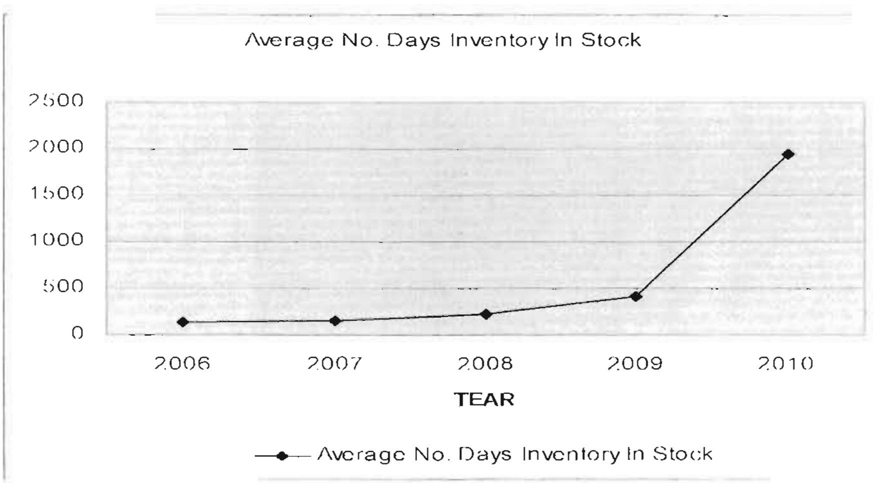
Receivable Turnover Ratio:



Here the company had higher receivable turnover ratio in 2006. In the year 2010 the company has the lowest receivable turnover. Average Receivable turnover ratio from 2006-2010 was 2.26

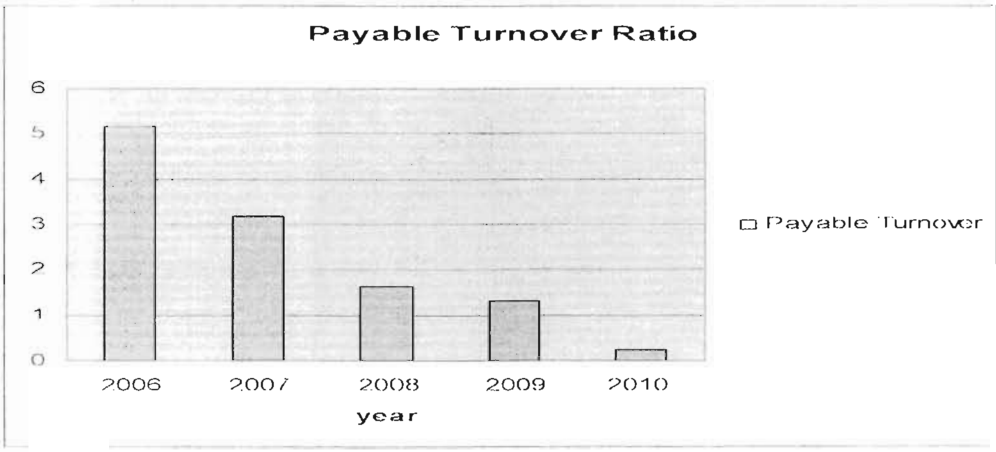
Average number of day's receivable outstanding

From our analysis we found that the company had the lower ratio in 2006 and had the highest ratio in 2010. The company average is 344.



Payable Turnover:

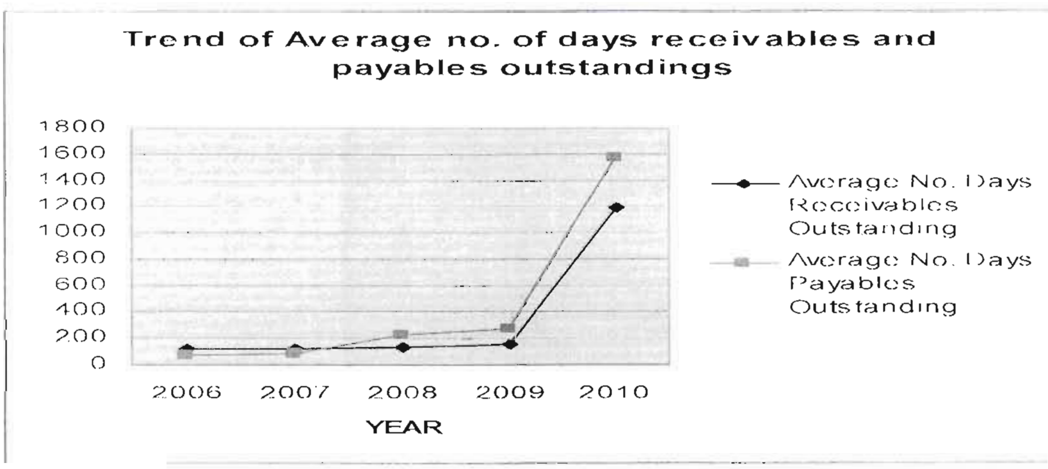
This ratio measures that how many times payable is turned over in a year. Lower the ratio is better because it indicates that payables are turned over less frequently so company gets more time to pay its debts.



The company has lower payable turnover ratio in 2010. The company average is 2.30.

Average no. of day's payable outstanding

It measures that. how many days company can defer its payment. The larger the time period is better for the company so that company can make delayed payments.



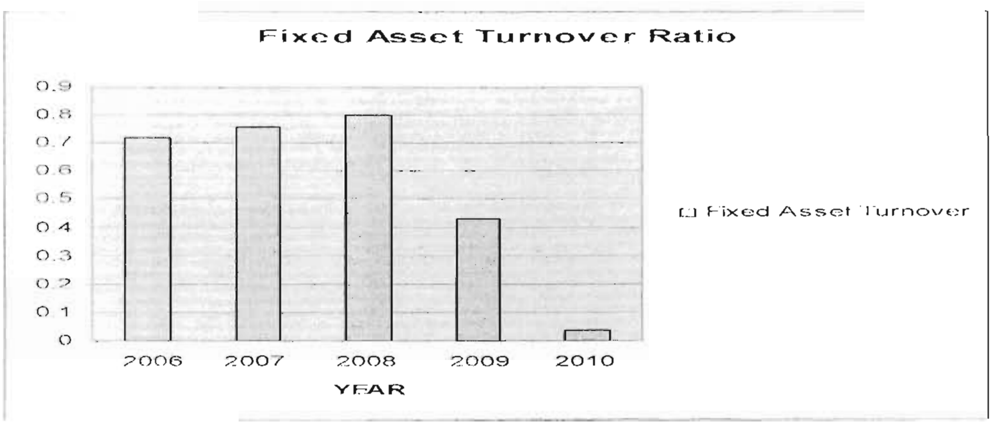
In 2006 and 2007 the average number of days' payable outstanding was lower but in 2010 the average number of days' payable outstanding was higher than the previous years.

Long-Term (Investment) Activity Ratios						
Ratio	2006	2007	2008	2009	2010	Average
Fixed Asset Turnover	0.72	0.76	0.80	0.43	0.04	0.55
Total Asset Turnover	0.47	0.35	0.44	0.25	0.03	0.31

Analysis:

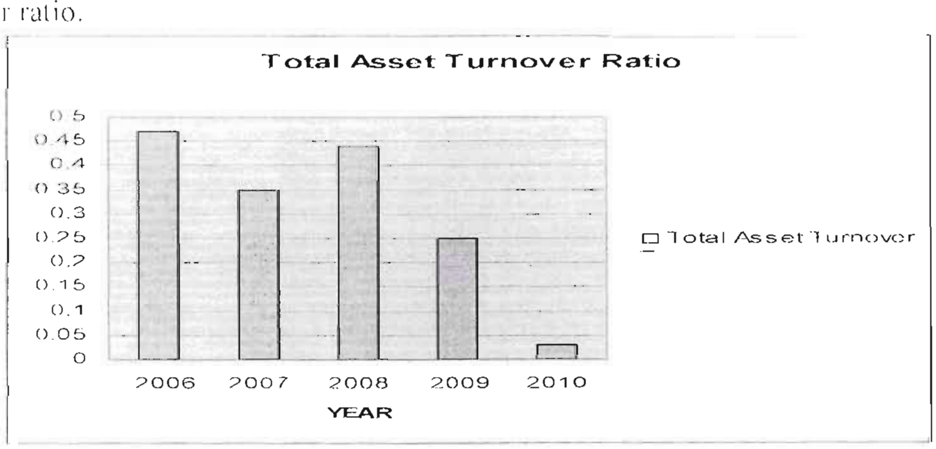
Fixed Asset Turnover ratio:

This ratio measures that, how efficiently firm manages its fixed asset and higher ratio indicates efficiency of firm. The ratio is increasing in beginning years but decreasing in later years. The ratio was low in 2010 which was 0.04 and higher in 2008 which was 0.80.



Total Asset Turnover Ratio:

Here total assets turnover ratio has decreased from beginning to ending years. So management of the MONNO Textile should concentrate on increase the total assets turnover ratio.



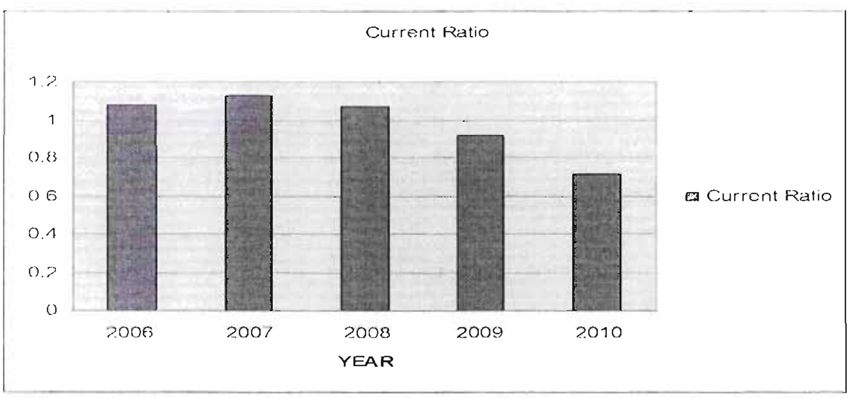
(2) Liquidity Ratio

(Liquidity Analysis)						
Ratio	2006	2007	2008	2009	2010	Average
Current Ratio	1.08	1.13	1.07	0.92	0.71	0.98
Quick Ratio	0.96	0.94	0.93	0.74	0.57	0.83
Cash Ratio	0.45	0.51	0.56	0.52	0.43	0.45

Analysis:

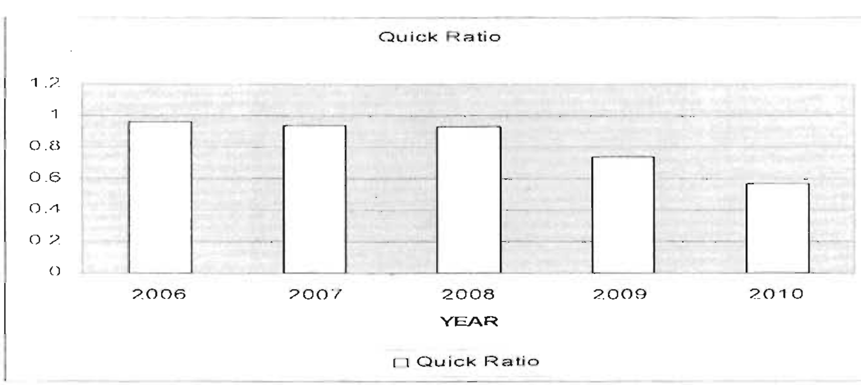
Current Ratio:

This ratio measures that how much current asset is available to pay out the current liabilities of company. Higher ratio indicates good liquidity position. MONNO Textile has lower current ratio in the year 2009 and 2010. It has higher current ratio in the year 2006.



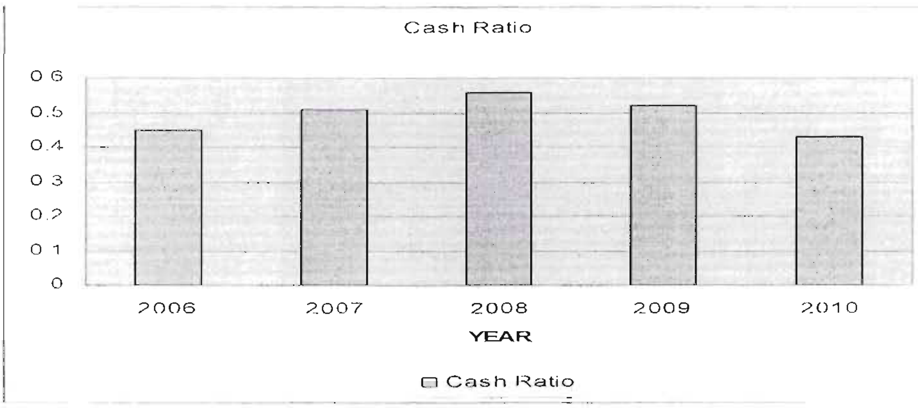
Quick Ratio:

This ratio includes the quick assets that can be easily converted into cash. It measures the liquidity position in more conservative way. In 2006 the MONNO Textile's quick ratio was 0.96 and then it has decreased in year 2009- 2010.



Cash Ratio:

From our analysis we can see that MONNO Textile has lower cash ratio in 2006 which point out that firm has worse liquidity position considering the cash ratio. But from 2007-2009 it increased which point out that firm has good liquidity position than previous year but again it decreased in the year 2010.

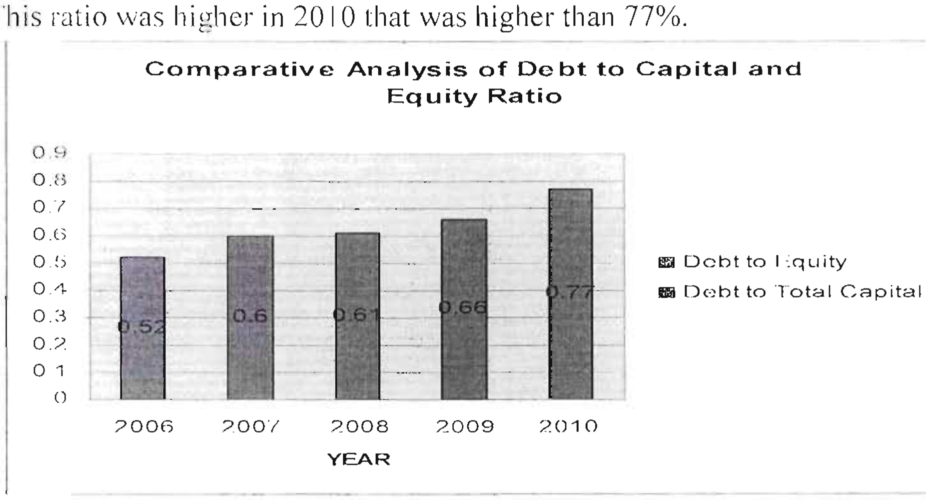


(3) Long Term Debt and Solvency Ratio

Ratio	2006	2007	2008	2009	2010	Average
Debt to Total Capital	0.52	0.60	0.61	0.66	0.77	0.63
Debt to Equity	1.09	1.53	1.54	1.94	3.38	1.90
Time Interest Earned (TIE)	1.02	1.32	0.59	1.77	3.17	1.57
CFO to Debt	0.19	0.16	0.05	0.12	0.02	0.108

Debt to Capital Ratio:

MONNO Textile is highly dependent on external financing which makes the firm more risky. This ratio was higher in 2010 that was higher than 77%.

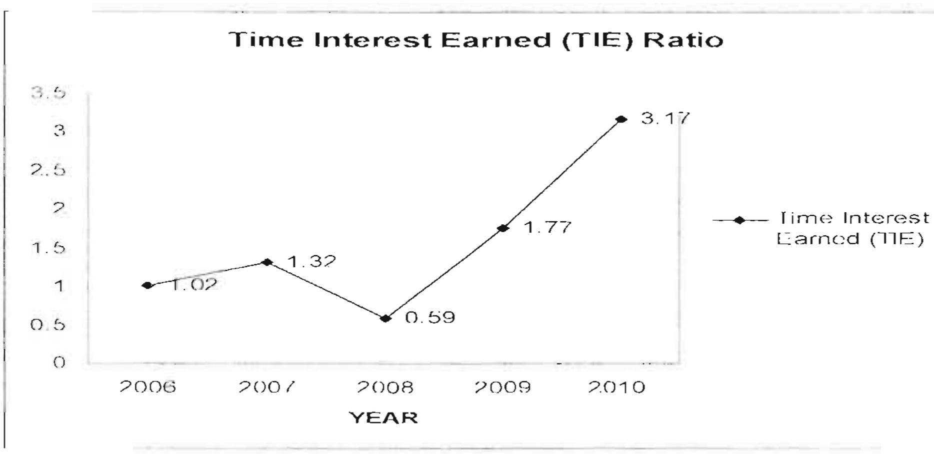


Debt to Equity Ratio:

From the above graph it can be deduced that MONNO Textile has higher equity to debt ratio. MONNO Textile had highest debt to equity ratio in year 2010.

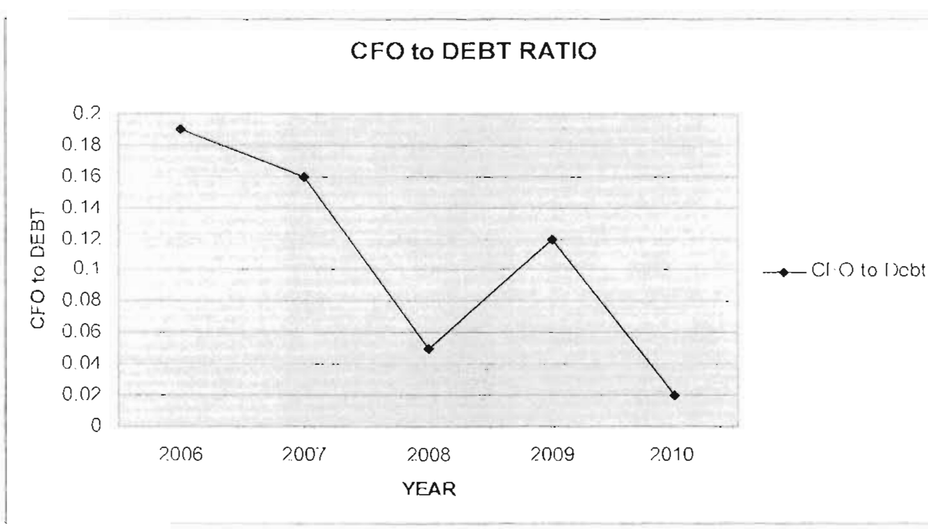
Time interest earned ratio:

It is a direct measure of ability of paying the interest for a company. This ratio was higher in 2009 and 2010 but that ratio has subsequently lower in the year 2008.



CFO to debt Ratio:

This ratio measures the cash flow generated by the firm to pay debt. Higher the ratio is better. CFO to debt ratio was lower for the company. The ratio was decreasing over the years and this indicates decreasing cash flow generated by the firm to pay debt.

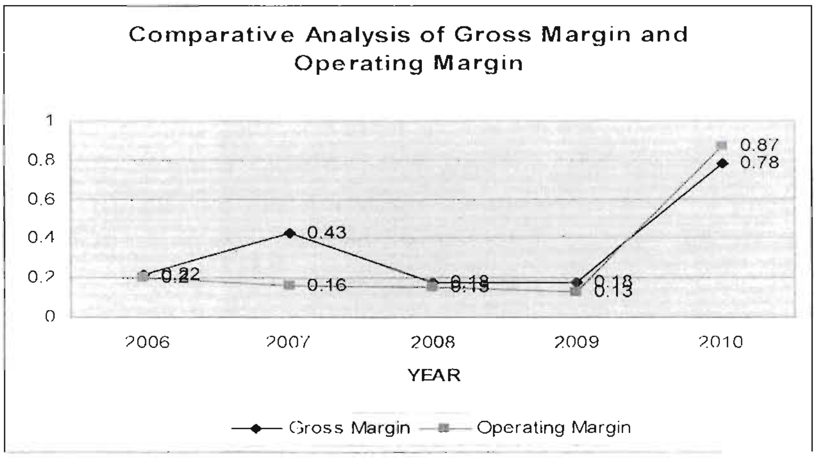


(4) **Profitability Analysis:**

(I) Return on Sales						
Ratio	2006	2007	2008	2009	2010	Average
Gross Margin	0.22	0.43	0.18	0.18	0.78	0.36
Operating Margin	0.20	0.16	0.15	0.13	0.87	0.30
Margin before Interest and Tax	0.05	0.03	0.03	0.26	4.84	1.04
Pretax Margin	0.05	0.04	0.03	0.26	4.84	1.04
Profit Margin	0.05	0.04	0.03	0.26	4.84	1.04

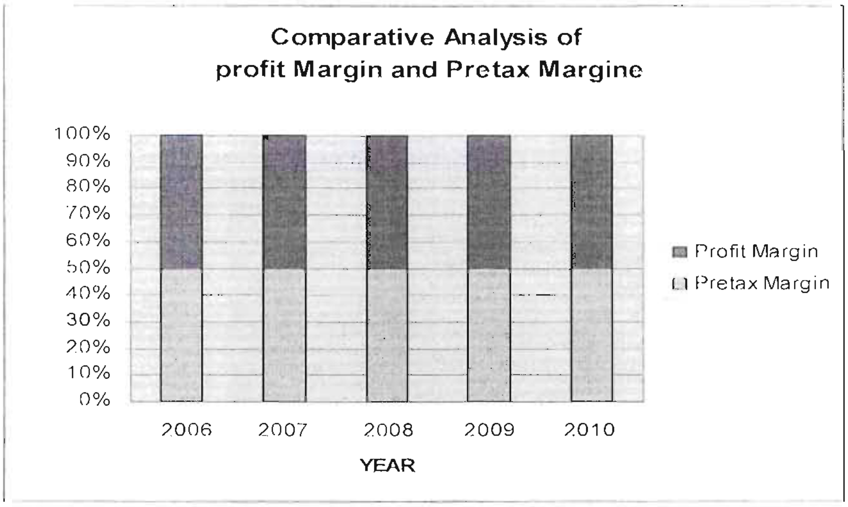
Gross Margin:

MONNO Textile has positive gross margin over the years. In 2010 the Gross margin was higher and in other years it increase and decrease respectively. So MONNO Textile is efficient to manage its direct expenses.



Operating Margin:
It measures profitability of firm from it's' core business. It is independent from firms investing, financing and tax position. The operating margin of was decreasing over the years from 2006-2009 but higher in 2010.

Pretax Margin:
Pretax margin measures the profitability which is independent from the impact of tax. The company has lower pretax margin from 2006 to 2008 and it was increase in 2009 and it became highest in 2010



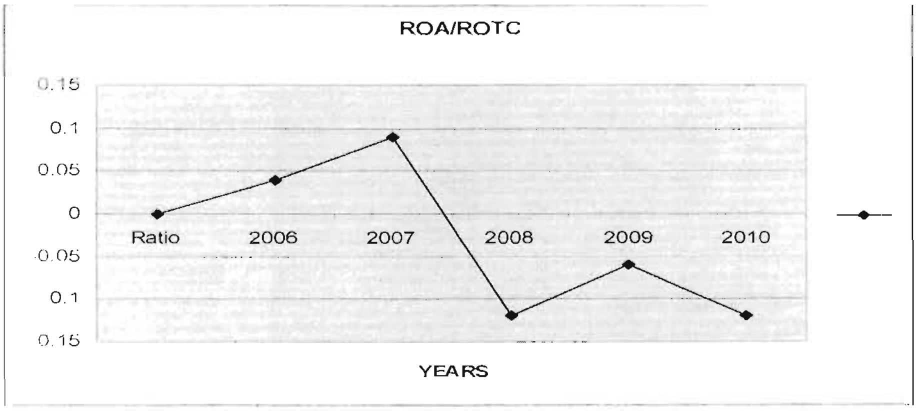
Profit Margin:

MONNO Textiles shows lower profit margin over the years. The company has lower pretax margin from 2006 to 2008 and it was increase in 2009 and it became highest in 2010

(ii) Return on Investment						
Ratio	**2006**	**2007**	**2008**	**2009**	**2010**	**Average**
Return on Assets (ROA)	0.04	0.09	-0.12	-0.06	-0.12	0.09
Return on Total Capital (ROTC)	0.02	0.04	-0.02	-0.06	-0.12	-0.03
Return on Equity (ROE)	0.05	0.04	-0.03	-0.19	-0.53	-0.13
Return on Common Equity	0.04	0.04	-0.03	-0.19	-0.53	-0.13

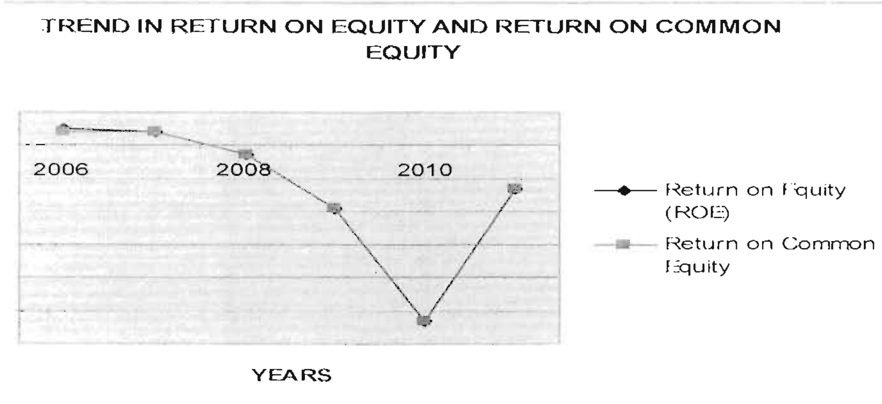
Return on Asset (ROA):

ROA measures the efficiency of firm to utilize its assets to generate revenue and return available to the capital providers. MONNO Textile has lower and negative ROA over the years 2008-2010 which mean asset could not utilize properly to generate profit.



Return on Equity (ROE):

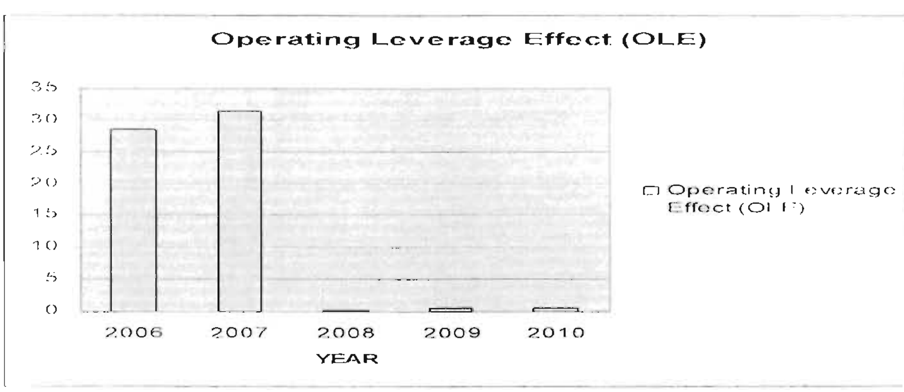
It measures the return on total stockholder's equity and excludes debt in the dominator and uses either pretax income or net income. Higher the ratio is the better for the firm. But the firm has lower and negative ROE over the years 2008-2010. Therefore the company produced lower or no return for the stockholders.



(5) Operating and Financial Leverage

(5) Operating and Financial Leverage						
Ratio	2006	2007	2008	2009	2010	Average
Operating Leverage Effect (OLE)	28.53	31.43	0.16	0.47	0.48	12.22
Financial Leverage Effect (FLE)	4.47	2.27	-2.5	-1.09	-0.13	0.60
Total Leverage Effect (TLE)	35.33	66.34	0.16	0.47	0.48	20.56

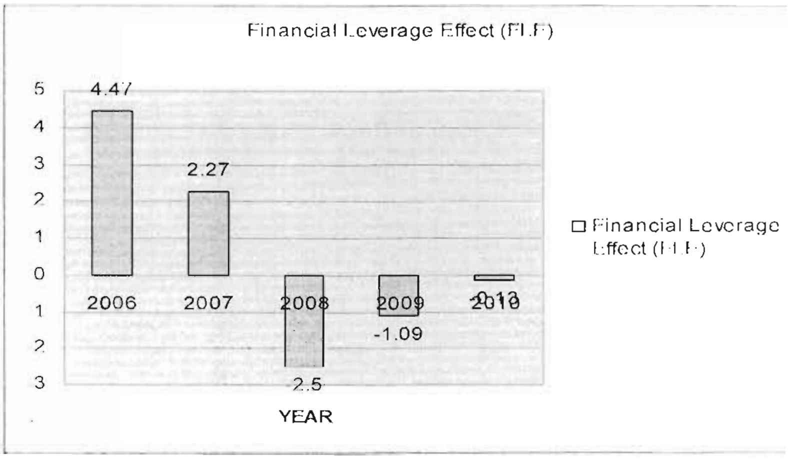
Operating Leverage Effect:



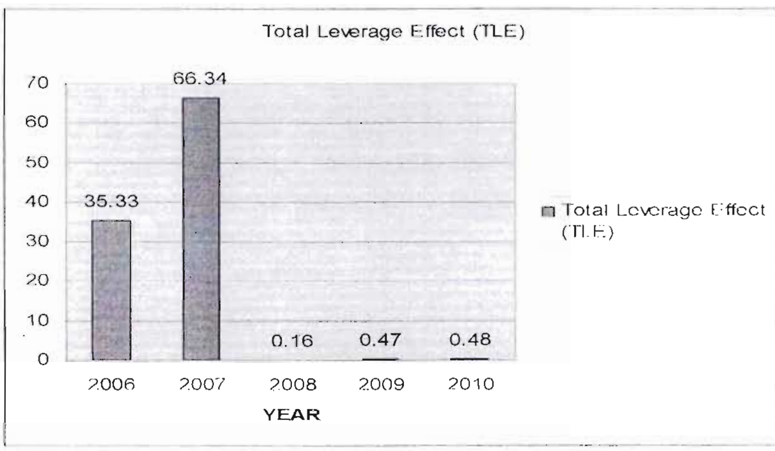
OLE is a measure of percentage change in income due to percentage change in sales volume. When OLE is greater than 1, Operating leverage is present. . MONNO Textile had highest OLE in year 2006 that was 31.43. It means if sales increase (decrease) by 1%, then operating income will increase (decrease) by 31.43%

Financial Leverage Effect:

MONNO has highest fixed cost in year 2006 so as FLE. So in year 2006 risk was higher. If operating income changes by 1% then net income will change by2.11 %. MONNO textile had negative FLE in 2008 to 2010.



Total Leverage Effect:



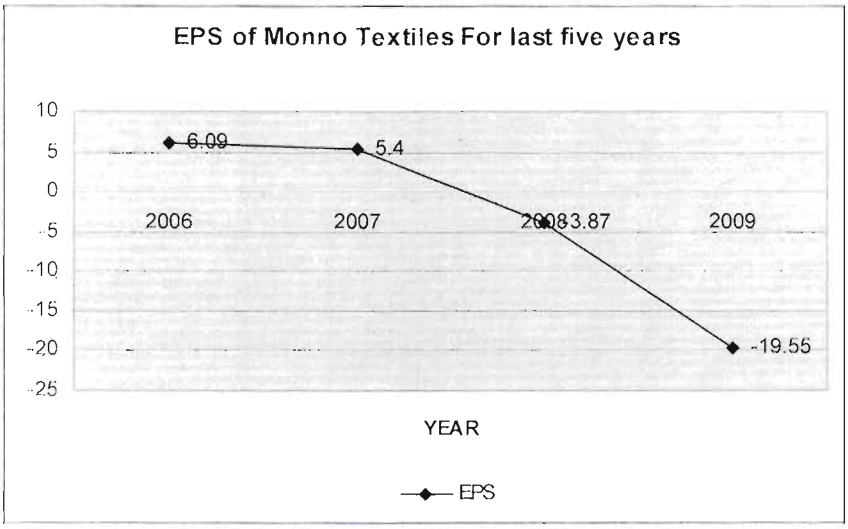
MONNO Textile had highest total leverage in 2006that was 66.34 and lowest TLE in the year 2007 that was 0.16.

EARNING PER SHARE

Basic earning per share measures earning available to common shareholders. Earning per share of MONNO textile from 2006-2010 are given below:

Years	2006	2007	2008	2009	2010
EPS	6.09	5.40	-3.87	-19.55	-35.82

From the table above, we can see EPS of MONNO textile have constantly decreased and it shows firm's decreasing profitability.



Inventory Analysis

MONNO Textile is the business of Textile industry. Inventory comprise raw material, finished goods and packing materials which are stated by the company at lower of cost and net realizable value. Stock of stores throughout the years. have been valued at average cost price.

As the company has used weighted average method to value its inventory, there is no impact creating differences in the financial statements. So to analyze the performance of the company with other companies in the industry, no adjustments have to be made to make the financial statement comparable.

8.0 Dandy Dyeing

Conducted by: Syaba Tarannum Quader

The **Dandy Dyeing** limited was incorporated in Bangladesh on May 12, 1993 as a public limited company under the Companies Act, 1913 (repeated in 1994) and its share are listed in the Dhaka Exchanges and the debenture of the company are listed in Dhaka Stock Exchange.

The registered office of the company is located in BSEC Bhaban (9th floor), 102, Kazi Nazrul Islam Avenue, Kawran Bazar, Dhaka-1215.

During the years the company owns and operates on industrial plans and is engaged on the business of weaving, dyeing and printing of grey clothes of own and of outside parties through its own showroom and agents all over Bangladesh.

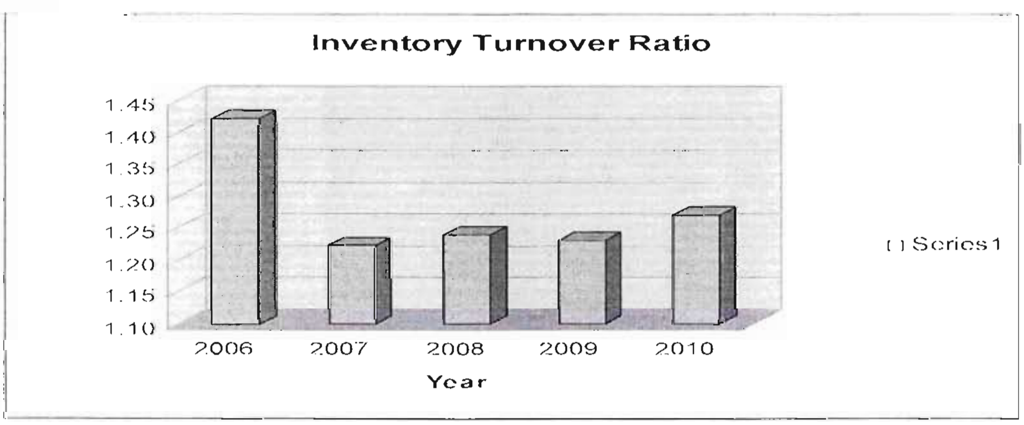
A Glimpse at Dandy Dyeing Ratio Analysis:

Activity Ratio:

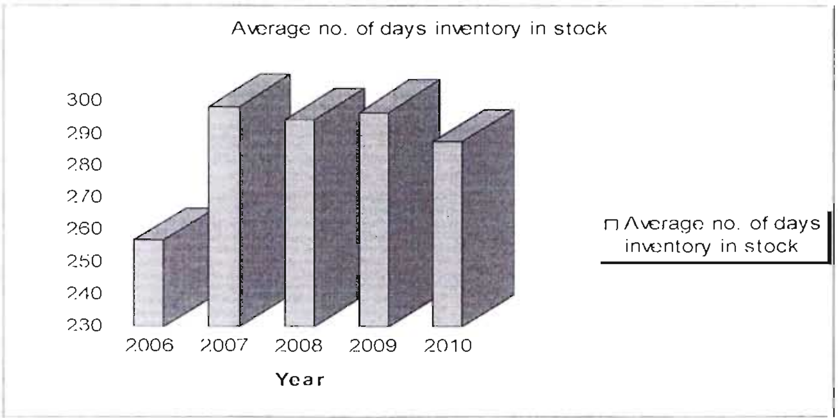
Findings:

	2006	2007	2008	2009	2010
(i) Short-Term (Operating) Activity Ratios					
Inventory Turnover	1.42	1.22	1.24	1.23	1.27
Average No. Days Inventory In Stock	256.80	298.53	294.36	296.75	287.40
Receivables Turnover	36.29	176.81	150.39	134.84	170.5
Average No. Days Receivables Outstanding	10.05	2.06	2.43	2.71	2.14
PayableTurnover	6.29	3.72	3.27	4.67	3.73
Average No. Days Payables Outstanding	58.03	98.12	111.62	78.16	97.86
(ii) Long-Term (Investment) Activity Ratios					
Fixed Asset Turnover	1.18	1.22	1.21	1.35	1.24
Total Asset Turnover	0.66	0.66	0.68	0.7	0.67

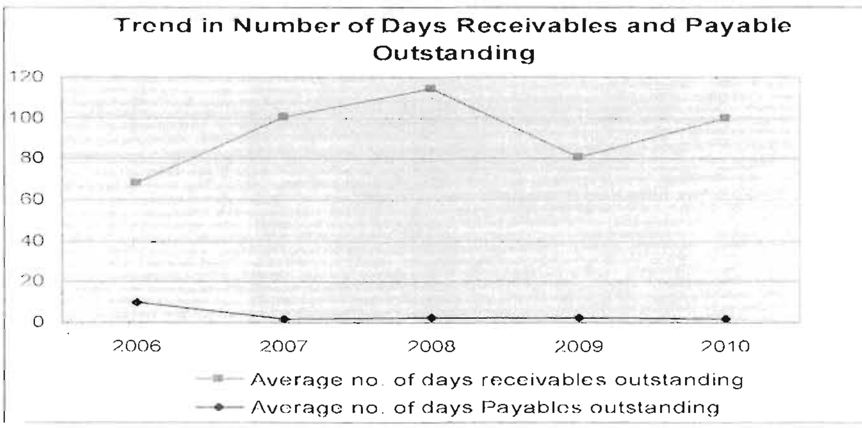
Analysis:



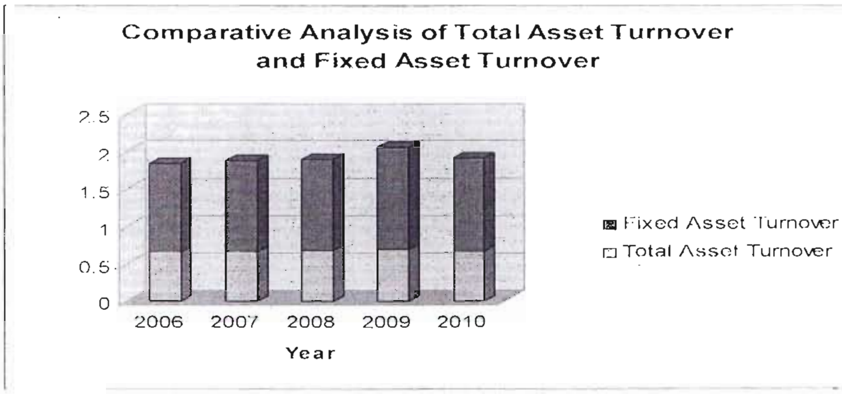
As we can see from the above graph inventory ratio for the company decreased from 2006 which indicates that the company is not efficiently completing its process of purchasing raw materials to production of finished goods, its inventories are piled up which will increase their storage cost. However, in 2010 it slightly increased but its not good enough compared to 2006. Low inventory turnover ratio also increases the average number of days inventory in stock which is shown in the graph below:



As the graph shows, it almost takes a whole year for the company to turn over its inventory, that is to complete the process of purchasing raw materials to production of finished goods.



Again the above line chart shows that the company is very in efficient in its operational activity. It's always better for a company if the gap between receivables outstanding and payables outstanding is minimum which means that after paying the payables they receive their cash quickly from their creditors. And if it is negative it is much better as they'll receive money before paying but in this case the distance between these are very high which indicates cash shortfalls and increased financing cost in order to pay their debtors.



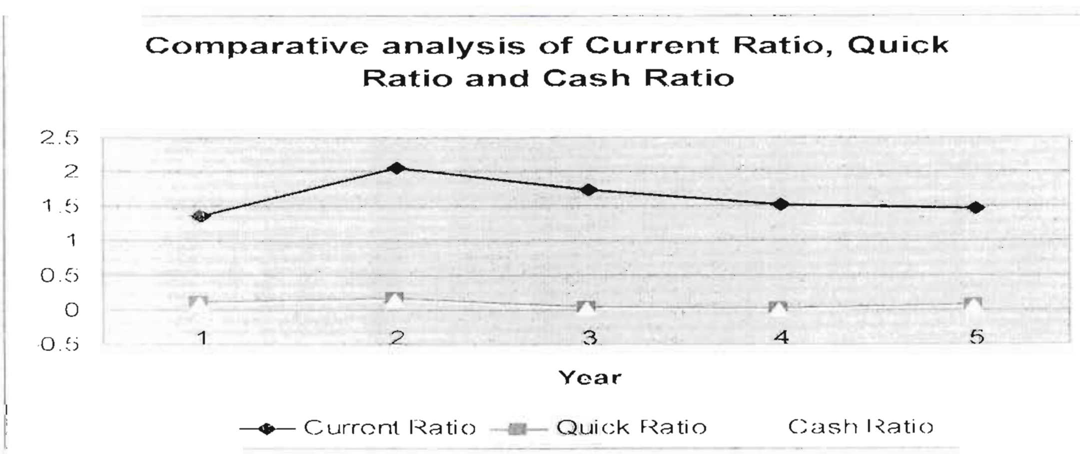
From the above graph we can see that fixed asset and total asset turnover ratios has been constant during the last 5years. Fixed asset turnover ration is better that total asset turnover ration which indicates that their generation of sales from investment in productive capacity is better than their overall investment efficiency. But they haven't been able to improve their efficiency in generating sales by making more investments as the ratios are more or less constant.

Liquidity Ratio:

Findings:

(2) Liquidity Analysis					
	2006	**2007**	**2008**	**2009**	**2010**
Current Ratio	1.36	2.05	1.73	1.51	1.47
Quick Ratio	0.1	0.16	0.04	0.009	0.07
Cash Ratio	0.09	0.15	0.01	-0.005	0.06

Analysis:



Current Ratio:
The current ratio of Dandy Dyeing is above 1, which indicates that the liquidity position is very good; it implies that they have adequate current assets to meet their current liabilities.

From 2006 to 2007 the ratio improved significantly due to decrease in current liabilities which was a result of the decrease in amount of short term loans. It almost decreased by Tk. 30,892,892. In 2007 the ratio is around the ideal ratio of 2:1 which shows that the company is more than twice its current liabilities, so it is considered to have good short-term financial strength. From 2007 onwards it declined slightly but still it's still quite good enough.

Quick Ratio:
The quick ratio, however, is not that good. An ideal ratio would be 1:1 but in this case its significantly below 1 during the last five years. From 2006 to 2007 accounts receivable declined by Tk 694,438. from 2007 to 2008, though accounts receivable increased cash in hand decreased by Tk 8,912,262, from 2008 to 2009 the ratio was the lowest due to negative cash balances and finally from 2009 to 2010 it improved a bit as cash balances were no longer negative.

These might be the probable reasons for the quick ratio to be significantly low during the past five years, which means that the company doesn't have a good ability to meet its short-term obligations with its most liquid assets.

Cash Ratio:
The cash ratio of Dandy Dyeing was highest in the year 2007. In this year cash and bank balance was the highest and liability was also the lowest so the combined effect was a better cash ratio. In the following years it maintained the more or less 'decreasing' trend, and in 2009 it had a negative cash ratio as their cash and bank balance was negative and liabilities also rose by TK 20103019 from 2008 to 2009.

After that in 2010 though liabilities decreased by TK 19474107, cash did not increase sufficiently to improve the cash ratio.

Cash Cycle:

Year	2006	2007	2008	2009	2010
Cash Cycle	208.82	202.47	185.17	221.3	191.68

As we know already, the shorter the cash cycle, the better. It implies that receivables are collected quickly, payment of payable are deferred. Cash flow of Dandy Dyeing is not impressive at all; as we can see they almost had to wait for 201.89 days on average over the past five years to receive their money after making the payments. This indicates cash shortfalls and increased financing cost as their payments had to be made by borrowing funds.
Though in 2008 it was the lowest compared to the other years, still it's not sufficient enough.

Long Term Debt & Solvency Ratio

Findings:

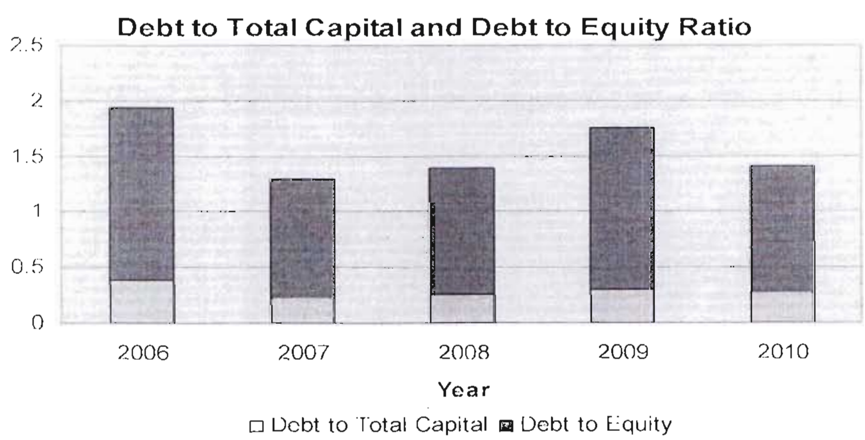
(3) Long term Debt and Solvency Ratio					
	2006	2007	2008	2009	2010
Debt to Total Capital	0.39	0.23	0.26	0.30	0.27
Debt to Equity	1.55	1.07	1.13	1.46	1.14
Time Interest Earned (TIE)	0.19	0.82	0.32	0.50	0.10
Fixed Charge Coverage	0.19	0.82	0.32	0.50	0.10
Cash flow from operations to debt ratio	0.18	0.32	0.28	0.15	0.47

Analysis:

Debt to Total Capital Ratio and Debt to Equity Ratio:

Debt to Total Capital Ratio basically depicts how much of the capital is financed by creditors. The higher the debt-to-capital ratio, the more debt the company has compared to its equity. This tells investors whether a company is more prone to using debt financing or equity financing

It can be seen that on average 27% of Dandy Dyeing's capital is financed by creditors over the past five years; the rest via equity. A company with high debt-to-capital ratios, compared to a general or industry average, may show weak financial strength because the cost of these debts may weigh on the company and increase its default risk. Thus, having 27% debt to total capital ratio on averages indicates less default risk for Dandy Dyeing.



Debt to Equity Ratio, on the other hand, measures, for every measure of equity, how much liability is borne by shareholders. Usually the lower the ratio better, as it indicates less risk. However, as can be seen, the debt-equity ratio is considerably high. It was the highest in the year 2006: 1.55. This means that in 2006 for every Tk 1 invested, the shareholders of Dandy Dyeing bore a liability of Tk 1.55 which is more than the amount they have invested.

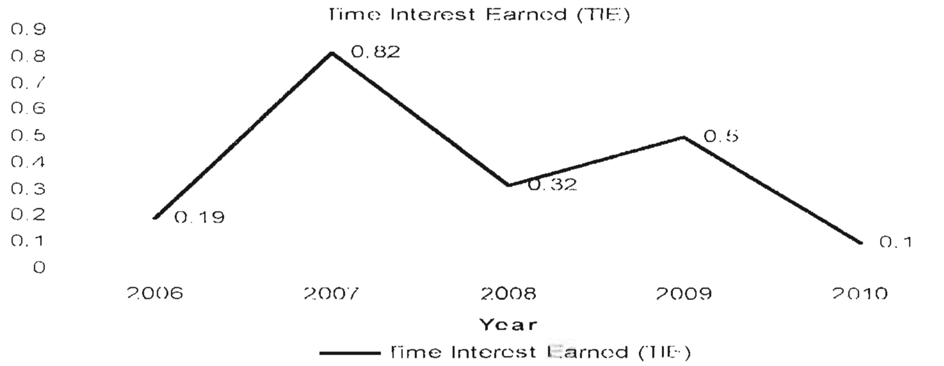
This ratio has been showing a decreasing trend from 2006 till 2008. This is because the level of debt decreased by Tk 26040000 from 2006 to 2008. again in 2009 it increased as debt increased by Tk 20460000. Finally in 2010 it again decreased a bit as debt declined by Tk 19840000.

Times Interest Earned Ratio:

Times interest earned measures a company's ability to meet its debt obligations. It is usually quoted as a ratio and indicates how many times a company can cover its interest charges on a pretax basis. Failing to meet these obligations could force a company into bankruptcy.

From 2006 to 2007 the ratio increased as their EBIT increased. In 2008, even though financial expense was reduced by Tk 2117487 TIE declined significantly as EBIT declined by Tk 13214212.

After that it rose again and then again declined and was the lowest in 2010, this shows that they have not been consistent in paying back their interest with their operating profit.



Cash flow from Operations-Debt Ratio:

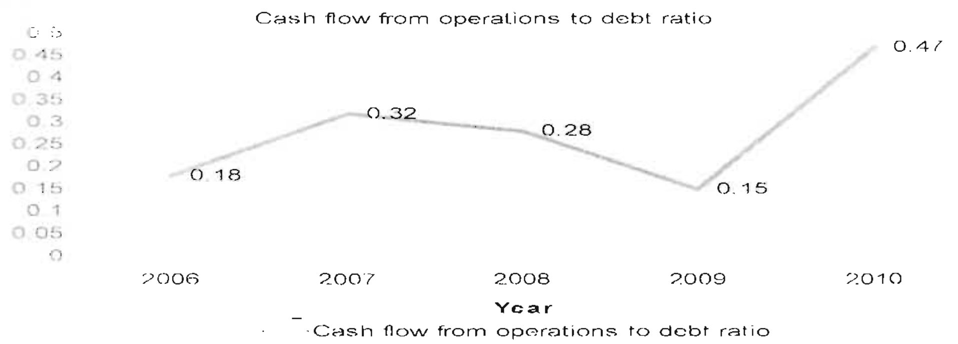
This ratio provides an indication of a company's ability to cover total debt with its yearly cash flow from operations. the higher the percentage ratio, the better the company's ability to pay its total debt.

As can be deduced from the graph illustrated below, initially the ratio was not that good, but this improved in 2007. This can be attributed to the increased cash inflow from collection from customer and export incentive.

In 2008, the level of debt increased by Tk 3948202. and cash flow from operations also declined by TK 1541649 resulting in a relatively low ratio.

In 2009, the cumulative effect of higher debt level and lower cash flow from operating activities resulted in the lowest ratio during the last 5 years.

However, in 2010 it increased again and it had the highest ratio compared to the last five years as total debt decreased by a significant amount of TK 19474107 and cash flow from operations increased by an amazing figure of TK 19726848.



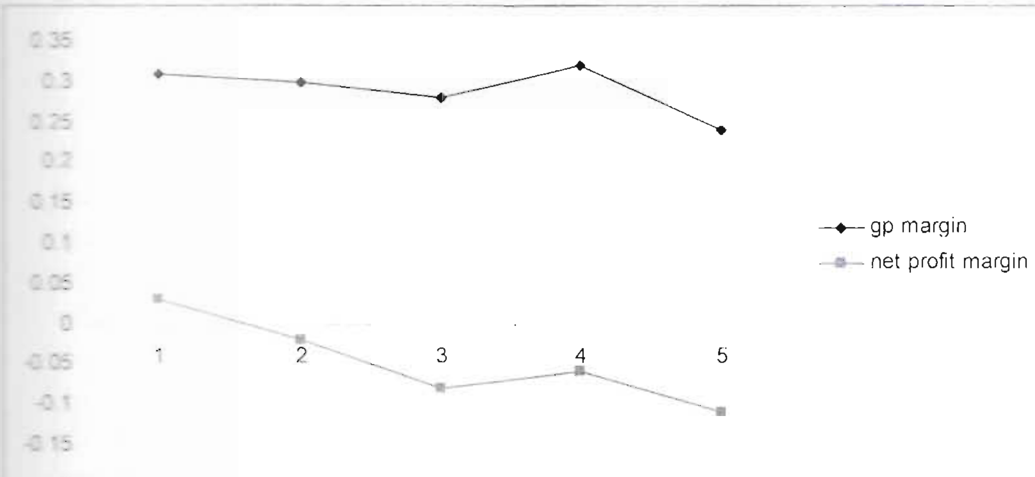
Profitability Ratio:

Findings:

(4) Profitability Analysis	2006	2007	2008	2009	2010
Gross Profit Margin	0.31	0.30	0.28	0.32	0.24
Operating Margin	0.27	0.25	0.23	0.26	0.18
Margin before Interest and Tax	0.16	0.11	0.04	0.06	0.01
Pretax Margin	0.03	-0.02	-0.08	-0.06	-0.11
Net Profit Margin	0.03	-0.02	-0.08	-0.06	-0.11
Return on Assets (ROA)	0.12	0.07	0.03	0.04	0.008
Return on Total Capital (ROTC)	0.12	0.07	0.03	0.04	0.008
Return on Equity (ROE)	0.08	-0.07	-0.25	-0.19	-0.32
Return on Sales	0.03	-0.02	-0.08	-0.06	-0.11
Asset to Equity Ratio	4.76	4.73	4.44	4.85	4.19
Earnings per share	0.08	-7.16	-24.76	-18.59	-32.29

Analysis:

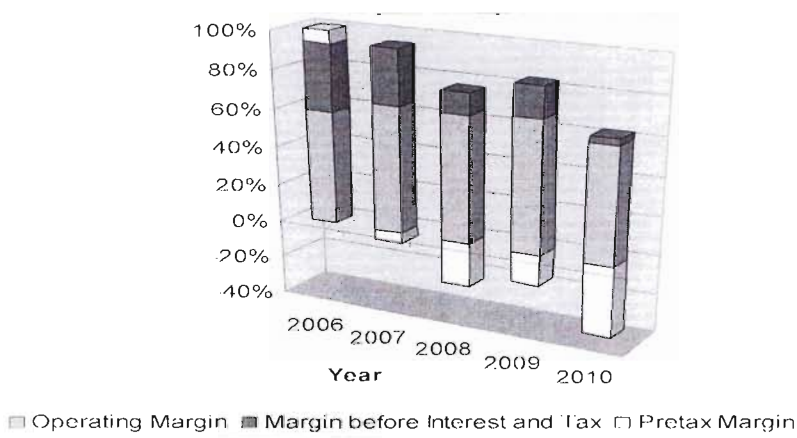
Gross Profit Margin and Net Profit Margin



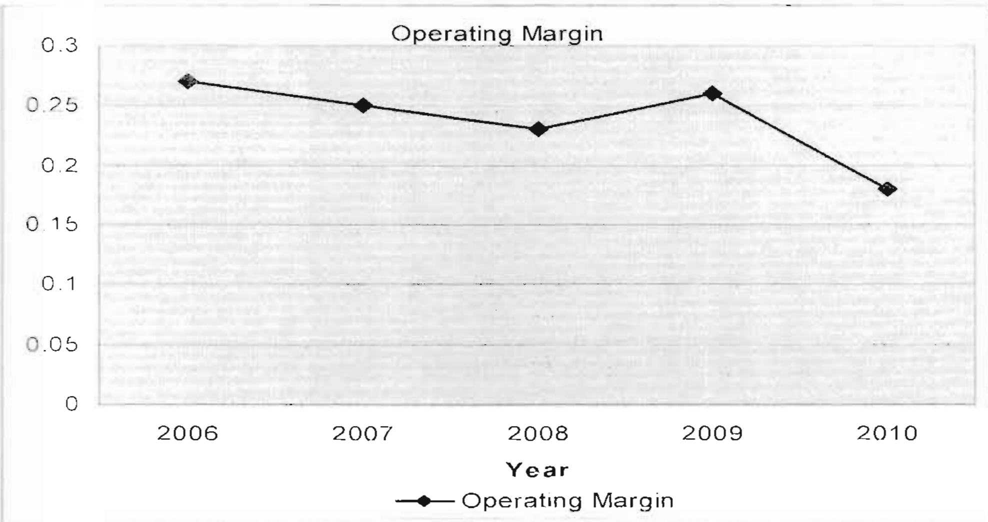
Gross profit margin measures the profitability of a company considering its manufacturing cost so the more it is the better, but in case of Dandy Dyeing this margin follows a declining trend from 2006 to 2008. In 2009 it was the highest as the manufacturing cost was the lowest but after that in 2010 is declined and is the lowest among the last five years.

Net profit margin shows the profit net of all expenses. As we can see the company had a profit in 2006 only. after that it incurred losses so we get a negative margin.
Thus it shows that Dandy Dyeing has not been efficient in managing their expenses.

Operating Margin, Margin before interest & tax, Pretax Margin:



Operating Margin:

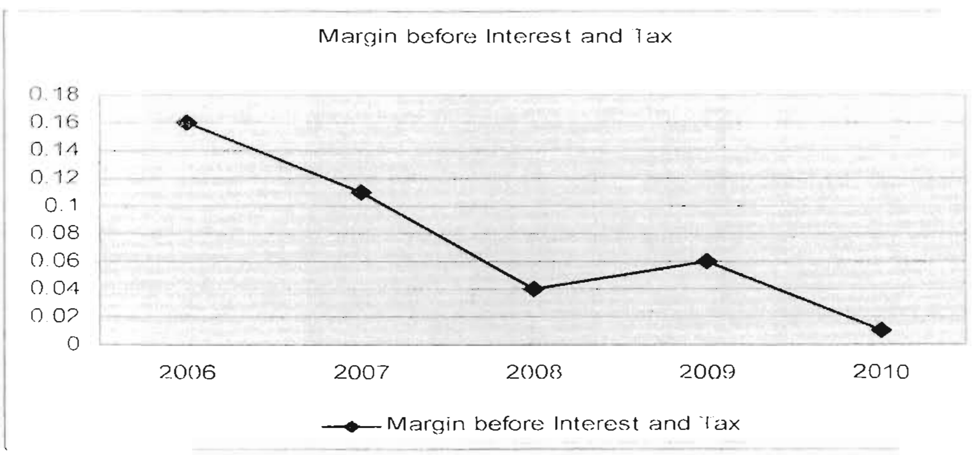


From 2006 to 2007 we can see that the operating margin declined. This was because of a reduction is sales by Tk 1186113 and also a rise in cost of goods sold by Tk 2023102, both of which decreased the gross profit and also since the operating expense itself was higher in 2007 the overall operating margin declined.

Similar situation was experienced from 2007 to 2008 where gross profit declined by Tk 4991556 and operating expense increased by Tk 312375 causing the overall operating margin to decline.

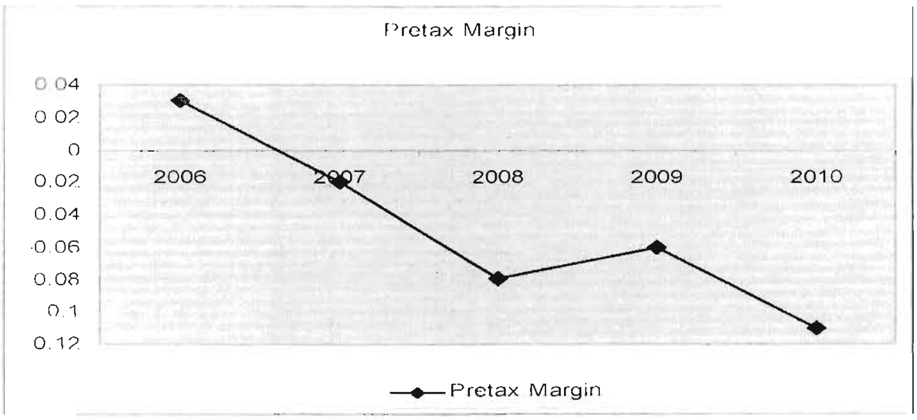
Then from 2007 to 2008 the operating margin improved as sales rose significantly by Tk 16335865 but after that it again declined as in 2010 they had the lowest sales volume in the last five years. Though operating expenses were lower compared to 2009 the gross profit was significantly low in 2010 causing the overall operating margin to decline.

Margin before Interest and Tax:



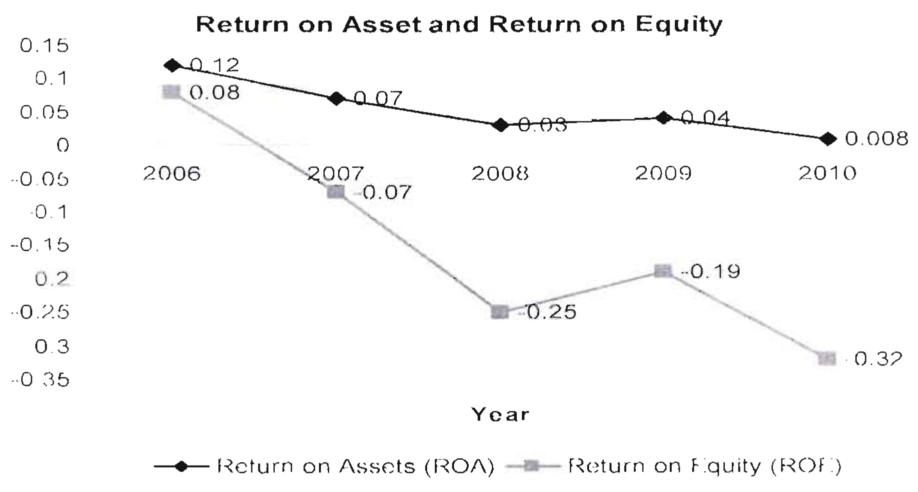
As seen from the above two graphs margin before interest and tax and the operating margin shows similar trend. It has been declining except for the year 2009 where it rose a bit but didn't continue. In 2006 they had the best margin before interest and tax since their earning before interest and tax was the highest as they were able to cut down on their investment and operating expense.

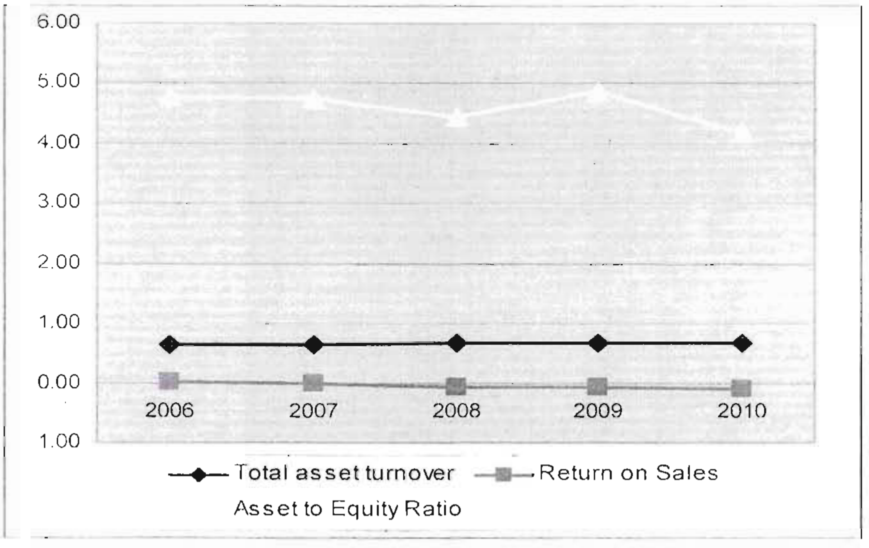
Pretax Margin:



As operating margin and margin before interest and tax declined the overall effect was a declining trend in pretax margin. As the earnings before interest and tax was significantly low from 2007 to 2010 the pretax margin is negative as the company started to bear losses.

Return on Asset:





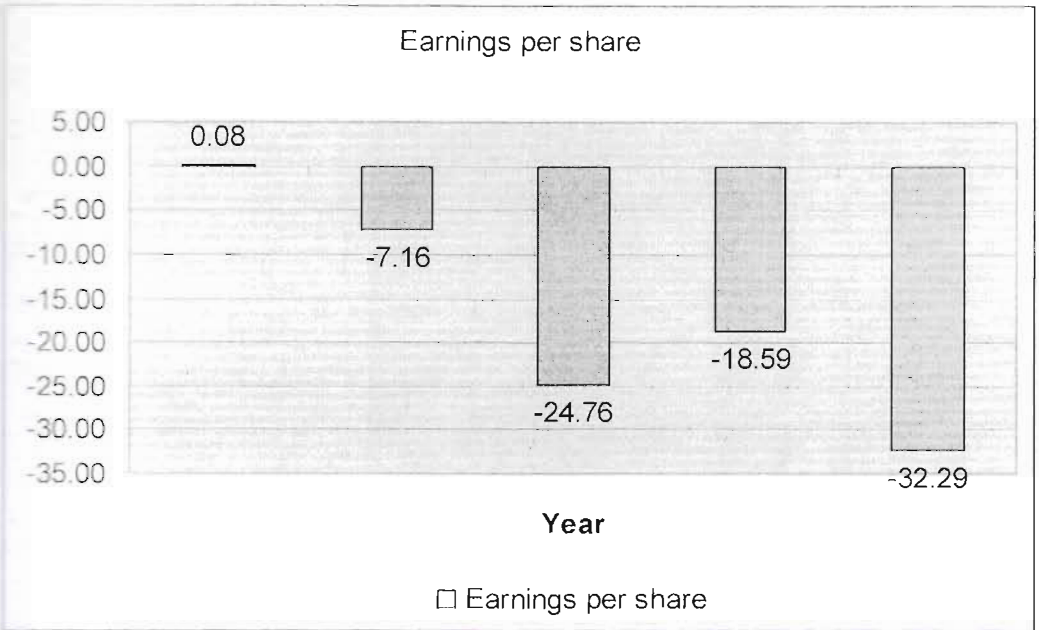
ROA gives an idea as to how efficient management is at using its assets to generate earnings. As we can ROA is declining over the past five years for Dandy Dyeing. A declining ROA is a signal that the company may not have been effective in its marketing activities. Just by looking at ROA we cannot find out the reason why it is declining. So we disaggregate it into two parts. First part consists of the total asset turnover and the second part is the return on sales. By looking at the second graph we can clearly see that total asset turnover is quite stable but return on sales is declining. Return on sales indicates a firm's efficiency in managing its expenses. So we can say since Dandy Dyeing is facing a declining ROA they are not being able to manage their expenses properly.

The ROE or Return on Equity is a ratio that measures a firm's ability to generate net income for every unit of capital put in by investors. Thus, as we can see from the graph. apart from 2006 the firm hasn't been able to generate any profit but the reason behind this cannot be understood until we disaggregate ROE. By expanding the equation we can actually determine which part of the company is affecting the ROE.

ROE consists of three ratios. return on sales, total asset turnover and asset to equity ratio. But by seeing the second graph we can clearly depict that Dandy Dyeing's ROE is declining because of poor return on sales. Return on sales indicates the efficiency of firm in managing its expenses. thus we can conclude that during the last five years they haven't been able to manage their expenses efficiently.

Earning per Share:

As can be deduced from the bar graph below, the EPS has been decreasing and it's been negative over the past four years which means that Dandy Dyeing is losing for every share it has issued. The highest loss for an investor was in 2010 of Tk 32.29 per share.

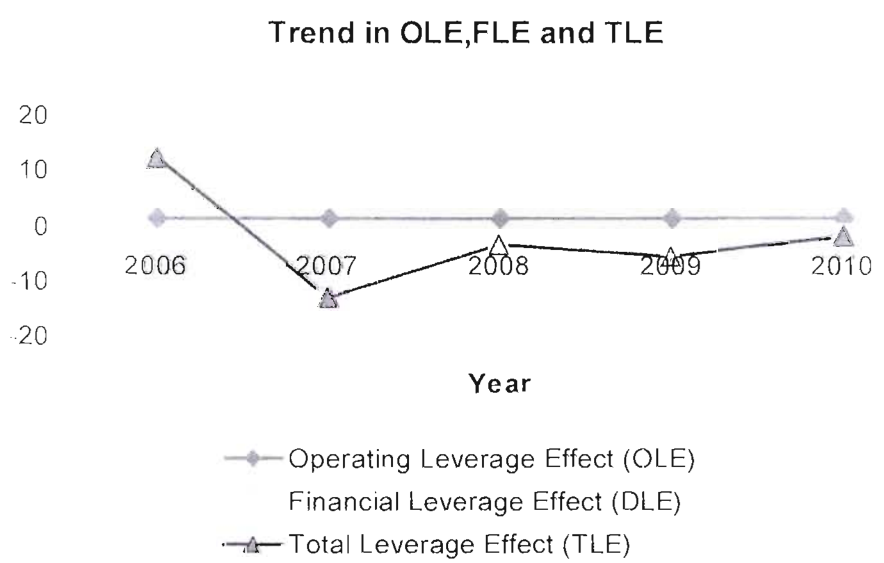


Operating Leverage, Financial Leverage & Total Leverage:

Findings:

(5) Operating and Financial Leverage	2006	2007	2008	2009	2010
Operating Leverage Effect (OLE)	1.17	1.19	1.23	1.21	1.32
Financial Leverage Effect (DLE)	10.31	-10.87	-2.79	-4.59	-1.58
Total Leverage Effect (TLE)	12.06	-12.94	-3.43	-5.56	-2.09

Analysis:



Operating Leverage Effect (OLE):

Operating leverage measure a certain percentage change of operating profit that occurs due to a certain percentage of change in the sales revenue. Major reason for any leverage effect to exist is due to the existence of fixed cost in the firms total cost structure.
Dandy Dyeing have relatively low operating leverage. It has been increasing over the past five years but a a very slow rate and was the highest in 2010, when for 1% change in sales, EBIT changed by 1.32%. Having a low operating leverage effect is good as it bears less risk.

Financial Leverage Effect (FLE):

Financial leverage measures certain percentage changes in net income that occurs due to a percentage change in operating profit.
Dandy Dyeing has a relatively high financial leverage and as it can be seen its negative in the past five years. This indicates that relatively small change in EBIT will result in a greater amount of loss for them. It is the highest in 2007 which means that if EBIT changes by 1% the net income will Decine by 10.87%.

Total Leverage Effect (TLE):

This ratio shows how changes in sales will effect changes in Net Income. The fluctuation observed in TLE is all attributed to the variable FLE, since OLE is more or less contant. The greatest risk is in 2007 whereby if sales changes by 1 %, Net Income declines by 12.94%.

Inventory Analysis:

Dandy Dyeing follows the weighted average method to vale its inventories. It values the stocks at lower of weighted average cost and net realizable vale. The cost of work in process includes material and proportionate conversion cost. Finished goods include material and conversion cost.

As the company has used weighted average method to value its inventory, there is no impact creating differences in the financial statements. So to analyze the performance of the company with other companies in the textile industry, no adjustments have to be made to make the financial statement comparable.

9.0 Industry Average

Activity Analysis

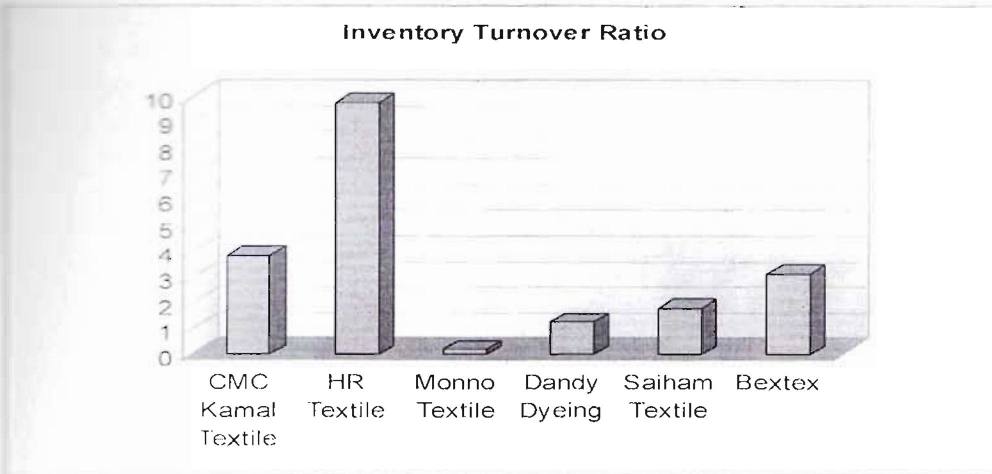
Findings: Textile Industries Activity Analysis of 2010

	CMC Kamal Textile	HR Textile	Monno Textile	Dandy Dyeing	Saiham Textile	Bextex	Benchmark
Inventory Turnover	3.84	9.7189	0.19	1.27	1.8012	3.1569	3.3295
Avg no of Inventory in Stock	95.05	38	1946	287.4	203	115	447.408
Receivable Turnover	16.56	2.9797	0.31	170.5	4.266	2.8913	32.92
Avg no of Receivable outstanding	22.04	122	1189	2.14	86	126	257.86
Payable Turnover	36.73	2.06	0.23	3.73	2.9033	1.9033	7.926
Average no of Payable outstanding	9.94	177	1569	97.86	126	191	361.8
Fixed Asset Turnover	0.54	2.45	0.04	1.24	1.5124	0.913	1.1159
Total Asset Turnover	0.46	1.0813	0.03	0.67	0.7188	0.574	0.589

Analysis

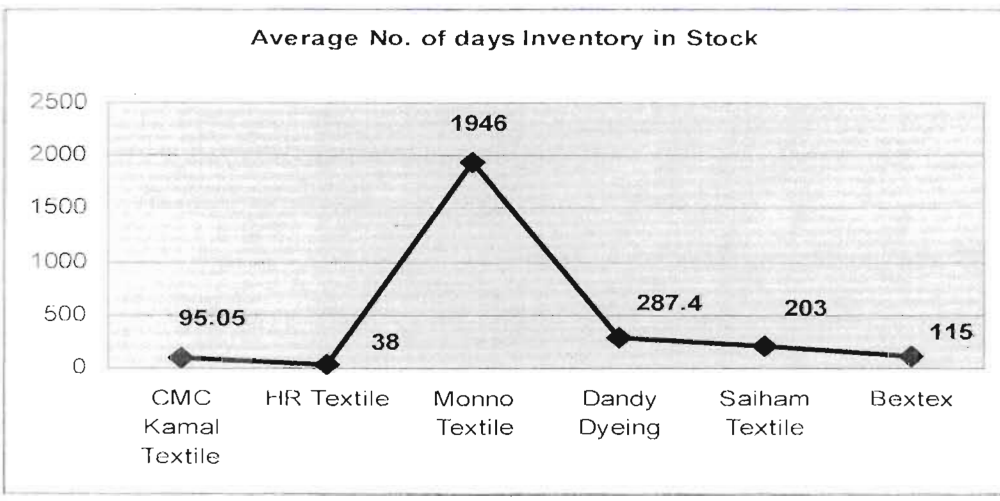
In the textile industry the firms on average performed moderately. Some company performed very well and some company performed poorly in 2010. The activity analysis consists of different ratio analysis of textile industry. The analysis is given below:

We can see from the inserted table that inventory turnover benchmark is 3.33. CMC Kamal Textile Mills and Bextex are operating close to the benchmark. Their ratios are 3.84 and 3.16. They are performing well. The inventories of those firms are sold first. But **HR textile has outperformed and departed the benchmark; its ratio is 9.718** which is the highest ratio of textile industry. And **Monno textile, Dandy Dyeing, Saiham are operating below the benchmark.**



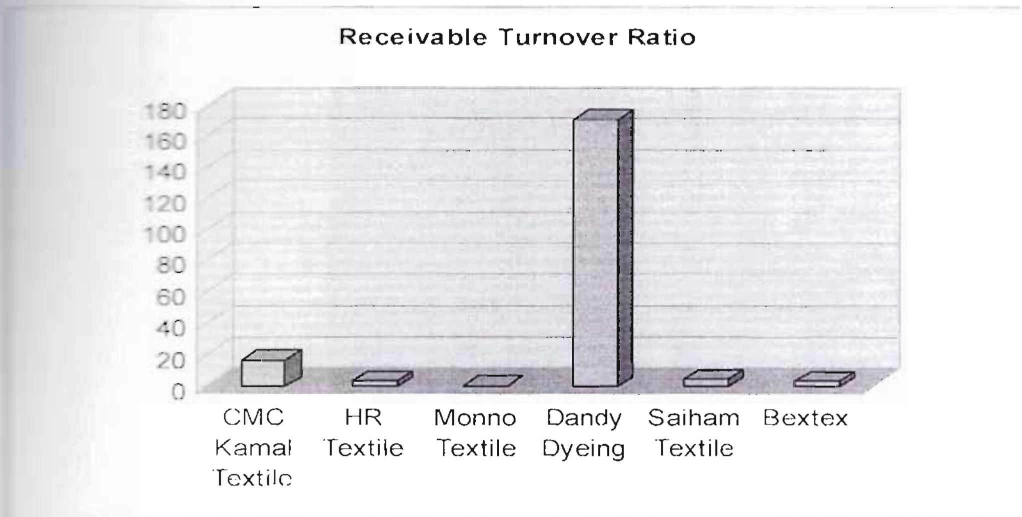
The figure shows **HR textile possesses the highest inventory turnover ratio as well as Monno textile** possesses **the lowest turnover ratio.**

If we see the average days of inventory kept in stock of the six textile firms, we will find that the highest days of inventory kept in stock is Monno textile and it is 1946 days which is peculiarly high. The benchmark of this ratio is 447 days.

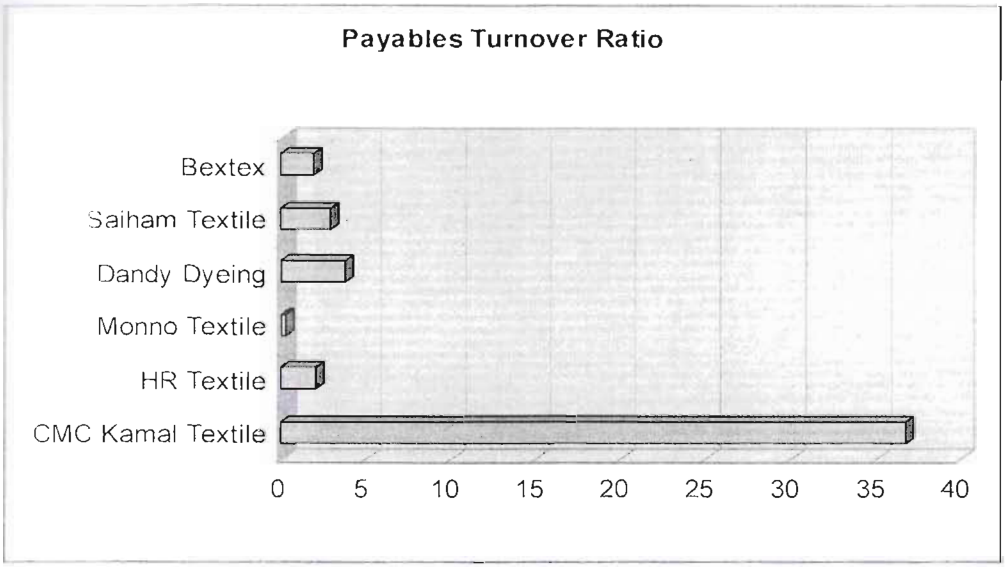


The above graph shows that all most all firms **without Monno Textile operates below the benchmark.** The lower the ratio. the less time is taken to complete the entire process of inventory turnover. **HR textile is highly efficient to manage its inventory as it has the lowest ratio 38.**

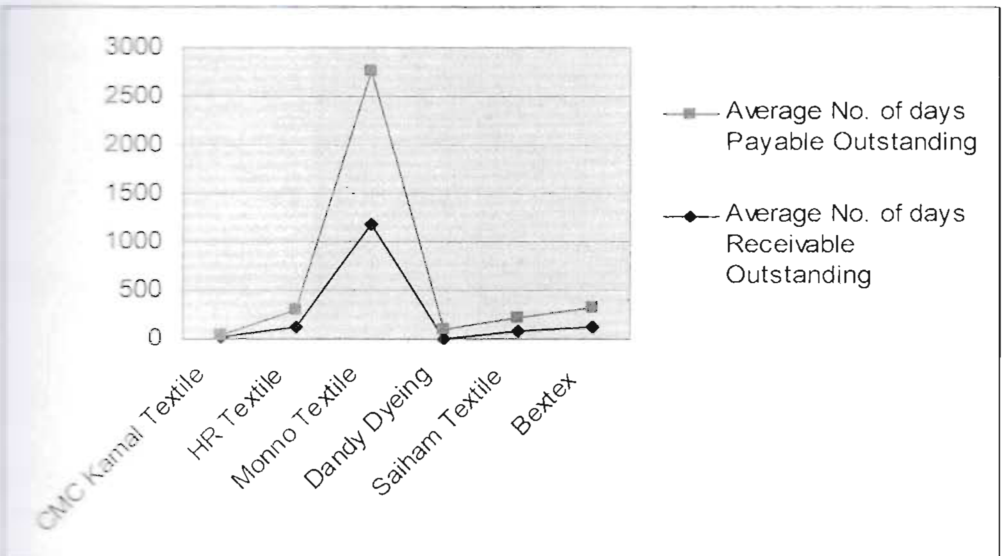
In case of Account receivable turnover ratio the benchmark of the industry is 32.92. All the firms operate below the benchmark except Dandy Dyeing which is 170.5. **Dandy Dyeing is very much efficient in credit policy.** It collects the receivables more than other firms. Other firms are inefficient in credit policy which is alarming news for textile industry as well as individual business.



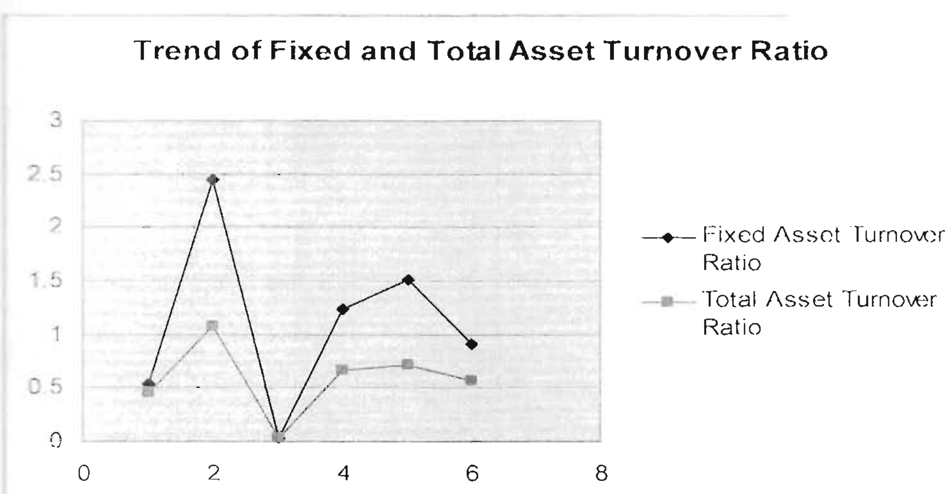
Moreover, the **payable turnover ratio of Monno Textile is the lowest ratio of the textile industry which is .31.** It is very good sign to have lower payable turnover ratio. It means the firm gets more flexibility for paying credit. The benchmark is 7.92. It is very good sign that all the firms operate below benchmark except CMC Kamal Textile Mills which is 36.73. It has the highest payment record of credit to the creditors regularly. That's why it holds less cash.



Average no of days of receivables and payable outstanding of the textile industry is comparable. **Almost all firms except Monno Textile work below the industry average 258 days. it is a good sign to have lower ratio. Dandy Dyeing takes the lowest days to turn the receivables into cash.** On the other hand, Monno Textile takes the highest days to turnover the payables. It earns the maximum credit facility in the market. other firms operates below the benchmark (361.8).



Incase of fixed and total asset turnover HR textile is the highest ratio holder in the industry. It efficiently manages its fixed and total assets to perform the business operation or generate sales. Other firms operate below the benchmark 1.115 for fixed asset turnover and .589 for total asset turnover. Having lower ratio is bad sign for the companies.



Liquidity Analysis

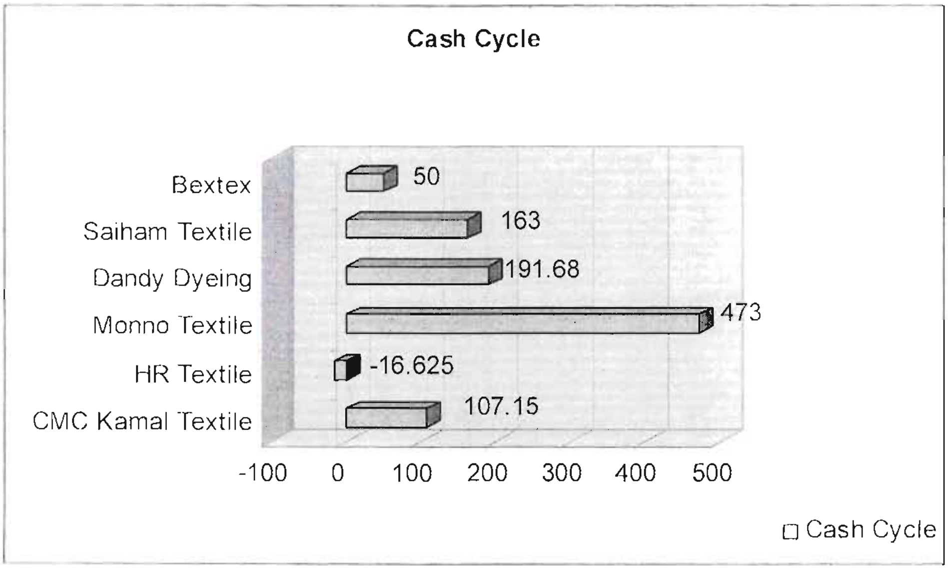
Findings:

Liquidity Analysis

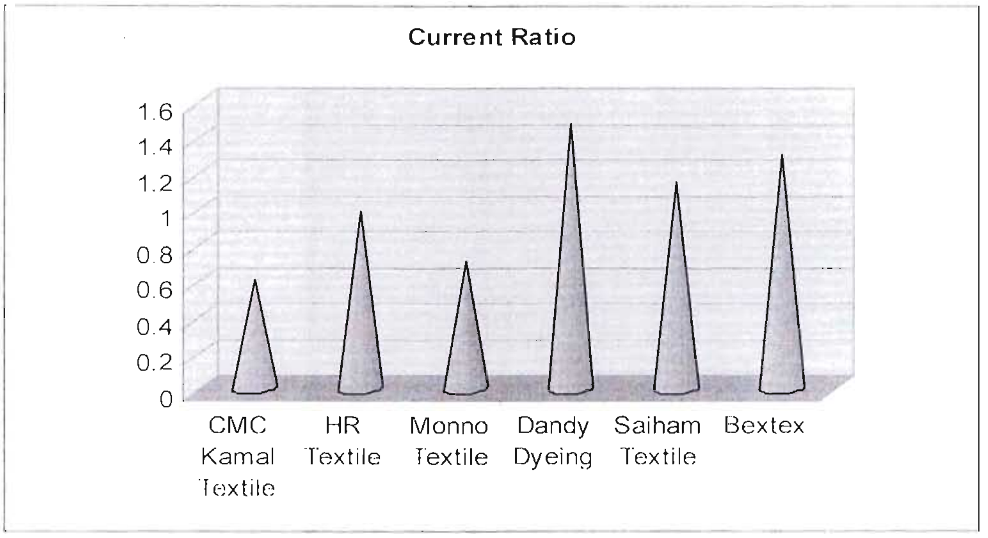
	CMC Kamal	HR Textile	Monno Textile	Dandy Dyeing	Saiham Textile	Bextex	Benchmark
Cash Cycle	107.15	-16.625	473	191.68	163	50	82.5341667
Current Ratio	0.61	0.9801	0.71	1.47	1.145	1.3	1.03585
Quick Ratio	0.17	0.6662	0.57	0.07	0.4024	0.4536	0.3887
Cash Ratio	0.06	0.0302	0.43	0.06	0.0348	0.0356	0.10843333

Analysis

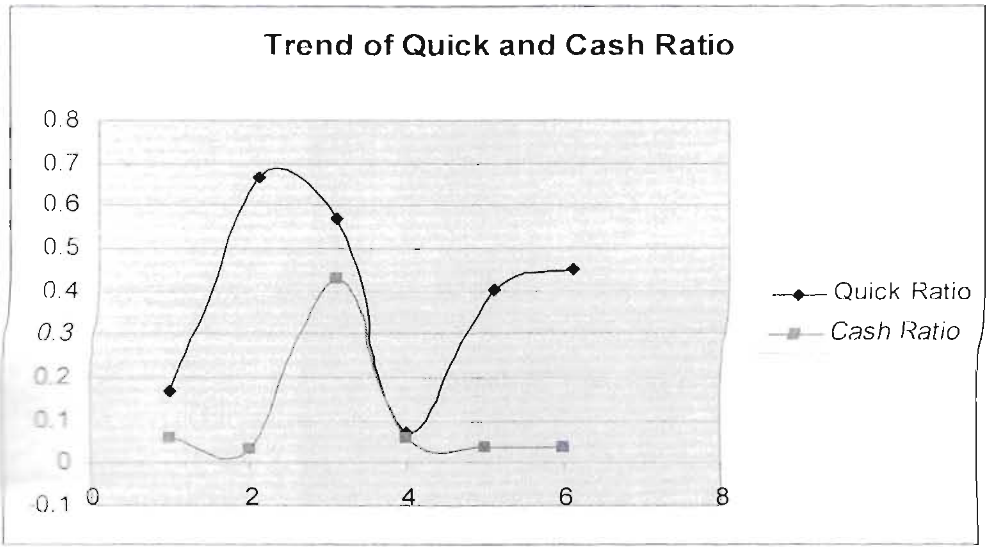
Shorter cash cycle is expected for every firm and negative cash cycle is more attractive performance of the firm. **HR textile is the only firm which has negative cash cycle in the whole industry.** It means the accounts receivables collection happens earlier than payable turnover. Its ratio is -16.625. **Dandy Dyeing takes the highest cash cycle (163) which is very alarming rate.** Most of the firm operates above benchmark 82.53 and shows negative result for the company. The company with lower cash cycle shows good result in last year.



The benchmark for the current ratio of the industry is 1.03. The firms work close to the benchmark. **Above the textile industries Dandy Dyeing has the highest current ratio which is very good. And CMC Kamal has the lowest current ratio which is bad scenario.**



Incase of quick and cash ratio which are the conservative measurement of liquidity analysis shows that **HR Textile has the highest quick ratio and Dandy Dyeing has the lowest ratio.** Having higher ratio is good for the company. All other firms operate very closely to benchmark .388. On the other hand Monno Textile has the highest cash ratio for paying current obligations which is .43. Dandy Dyeing and CMC Kamal has the lowest ratio in the industry.



Long Term Debt and Solvency Analysis

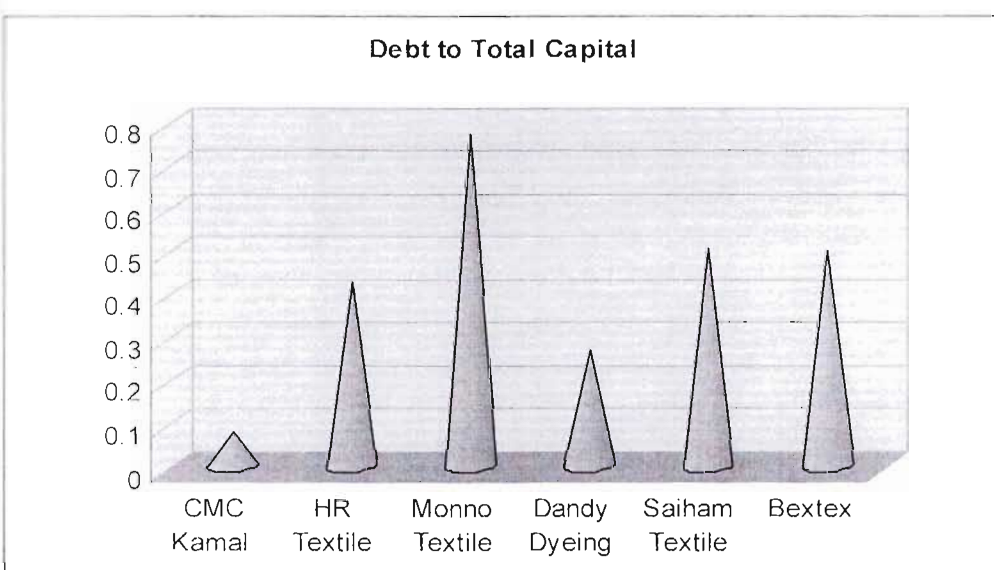
Findings:

Long Term Debt and Solvency Analysis

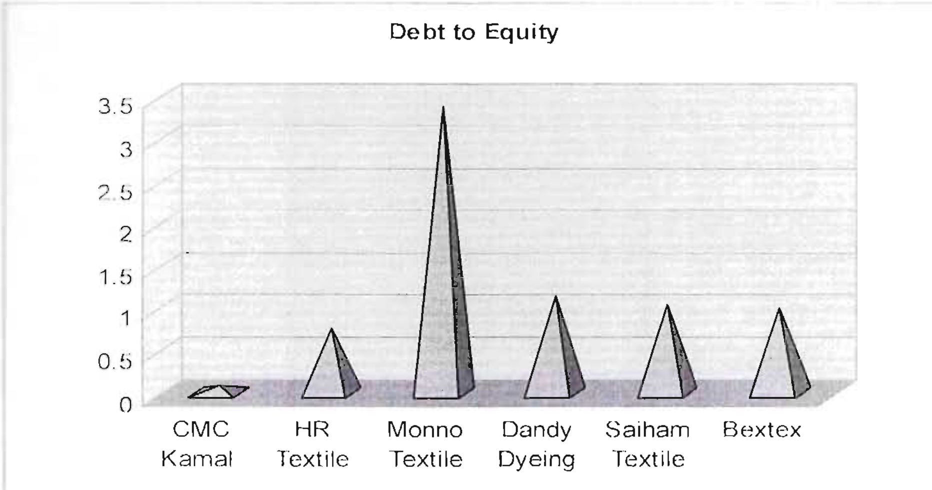
	CMC Kamal	HR Textile	Monno Textile	Dandy Dyeing	Saiham Textile	Bextex	Benchmark
Debt to Total Capital	0.08	0.4288	**0.77**	**0.27**	0.508	0.501	0.4263
Debt to Equity	0.09	0.7508	**3.38**	1.14	1.033	1.005	1.233
Time Interest Earned	**3.27**	1.707	3.17	**0.1**	2.8421	3.14	2.371
Fixed Charge Coverage	0.84	1.681	-170.38	**0.1**	1.9713	**2.98**	1.245
CFO to Debt Ratio	0.416	0.2461	**0.02**	**0.47**	0.145	0.317	0.269

Analysis

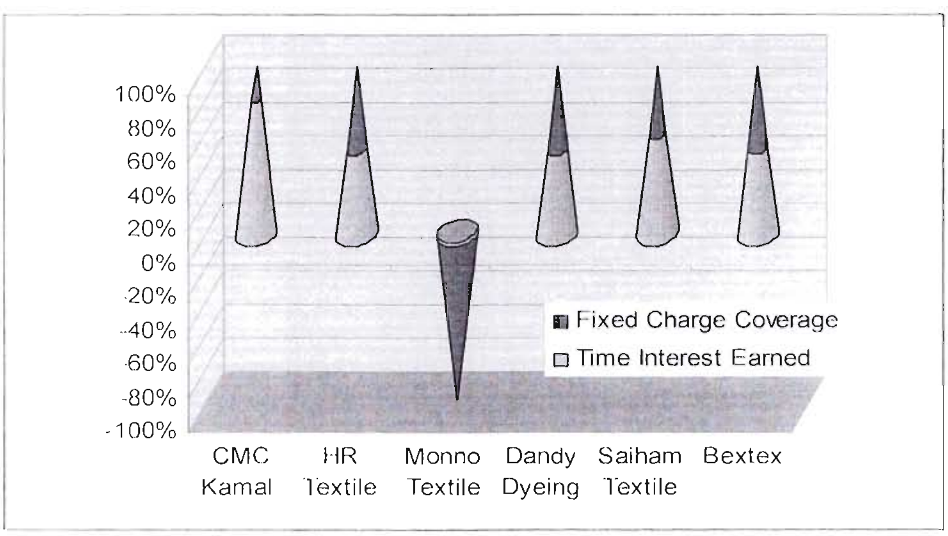
The benchmark for debt to total capital is 0.43. **Monno Textile has the highest ratio which means it bears more risks by using debt and Dandy Dyeing has the lowest ratio which indicates less risk.** All other firms operate more closely to the benchmark 0.43.



Incase of Debt to equity ratio the benchmark is 1.23. Again **Monno Textile has the highest ratio 3.38** and bearing higher risk by using debt obligations. **CMC Kamal has** the lowest ratio 0.09 and it indicates the equity portion is higher than debt. Other textile mills are clustered to benchmark.

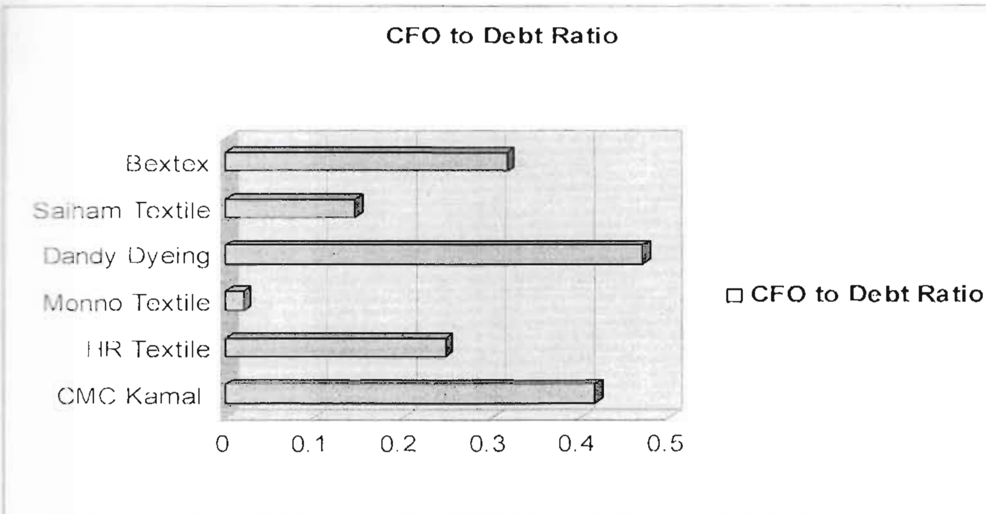


Interest payment is the fixed financing cost of the firm. So, it is important to measure the interest payment ability of the firm to secure future liquidity position. **CMC Kamal Textile Mills has the highest TIE ratio 3.27 which is good indicator**. It proves firms ability to pay the interest by EBIT. **Dandy Dyeing has the lowest ratio which means it has the least ability to pay interest expense.** It is risky for the creditors.



Similarly, Bextex has the highest fixed charge coverage ratio and it is a positive sign the company. And Dandy Dyeing has the lowest ratio of fixed charge coverage ratio. Having higher ratio is good for the company.

Dandy Dyeing has again the highest CFO to debt ratio and Monno Textile has the lowest ratio .02. The other firms are more deviated from the benchmark 0.269.



Profitability Analysis

Findings:

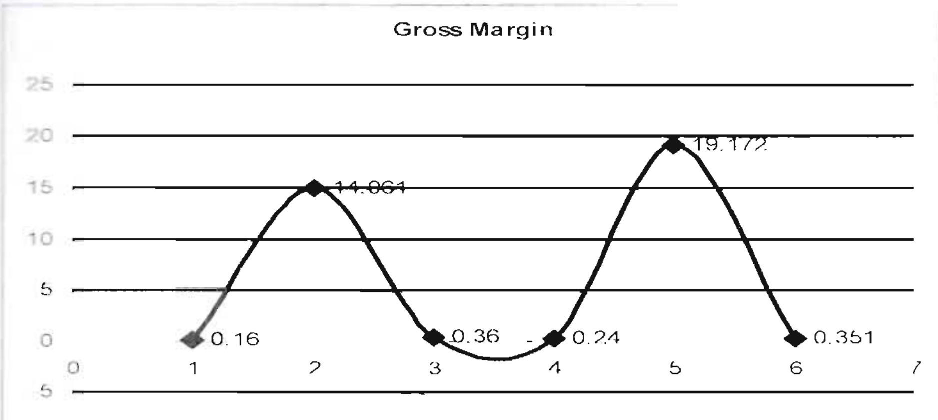
Profitability Analysis

	CMC Kamal	HR Textile	Monno Textile	Dandy Dyeing	Saiham Textile	Bextex	Benchmark
Gross Margin	0.16	14.961	0.36	0.24	19.172	0.351	5.874
Operating Margin	0.13	7.537	0.3	0.18	6.692	0.311	2.525
Margin before Interest and Tax	0.14	7.406	1.04	0.01	6.692	0.311	2.599
Pretax Margin	0.09	3.068	1.04	-0.11	6.324	0.157	1.7615
Profit Margin	0.08	2.607	1.04	-0.11	6.023	0.139	1.6298
Return on Asset	6	3.523	-12	8	8.016	5.736	3.8605
Return on Total Capital	8.6	18.653	-12	8	4.81	17.861	8.302
Return on Equity	6	11.498	-53	-32	8.904	16.039	6.931
Asset to Equity	1.44	4.078	4.38	4.19	2.033	2.005	2.291
EPS	1.92	15.55	-35.82	-32.29	18.75	4.36	1.38166

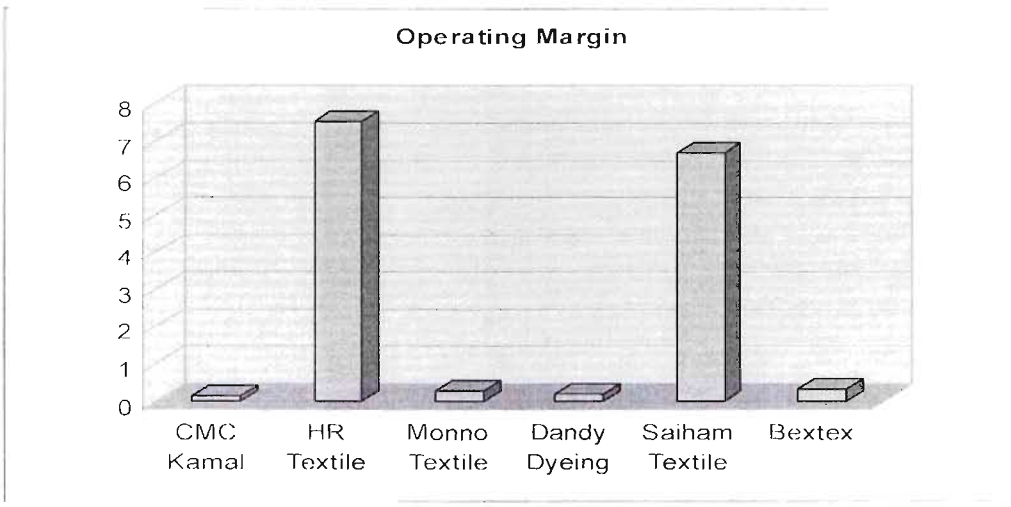
Analysis

The textile industry's profitability has been measured through various ratios. The analysis is given below:

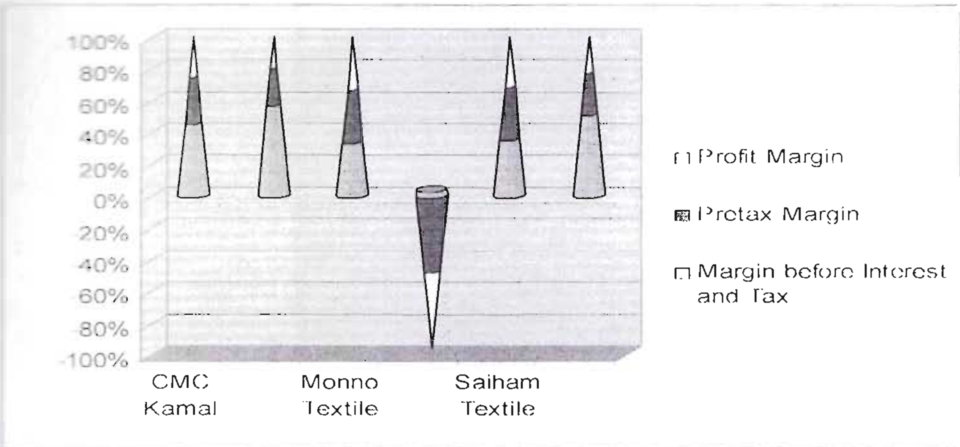
The benchmark of the gross margin is 5.87. The higher ratio shows profitability for the firm. **HR Textile is the highest ratio holder in the industry which is 14.96** than benchmark. **CMC Kamal Textile has the lowest gross margin in 2010 which is 0.16.** Other firms are scattered more from the benchmark. It means there is huge variability in the industry of income.



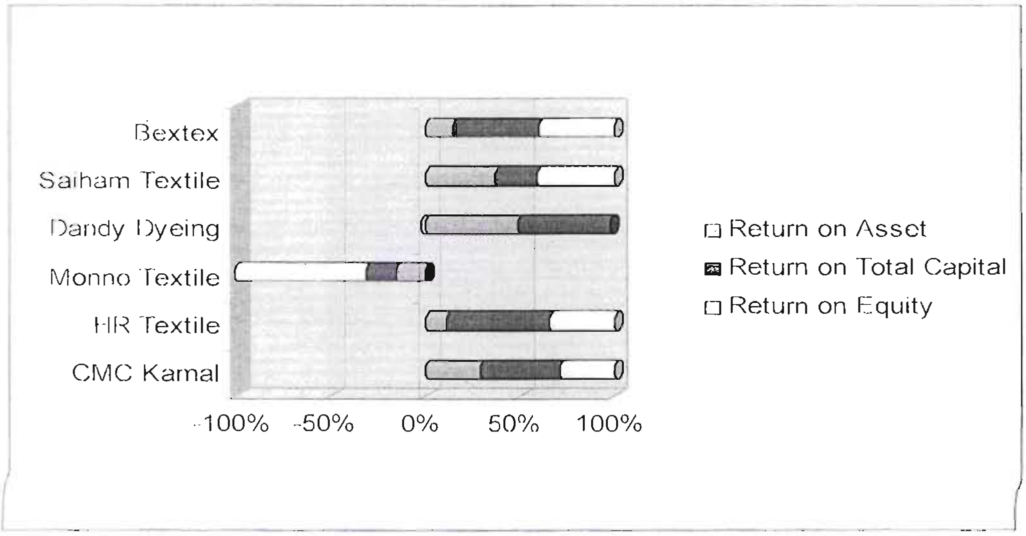
The operating margin is highest for HR Textile which is 7.53. The higher ratio is good for the company. **The lowest ratio is .13 which is possessed by CMC Kamal Textile Mills ltd.** Other firms operate below the benchmark 2.52 except Saiham Textile which is next to HR textile and amount 6.69.



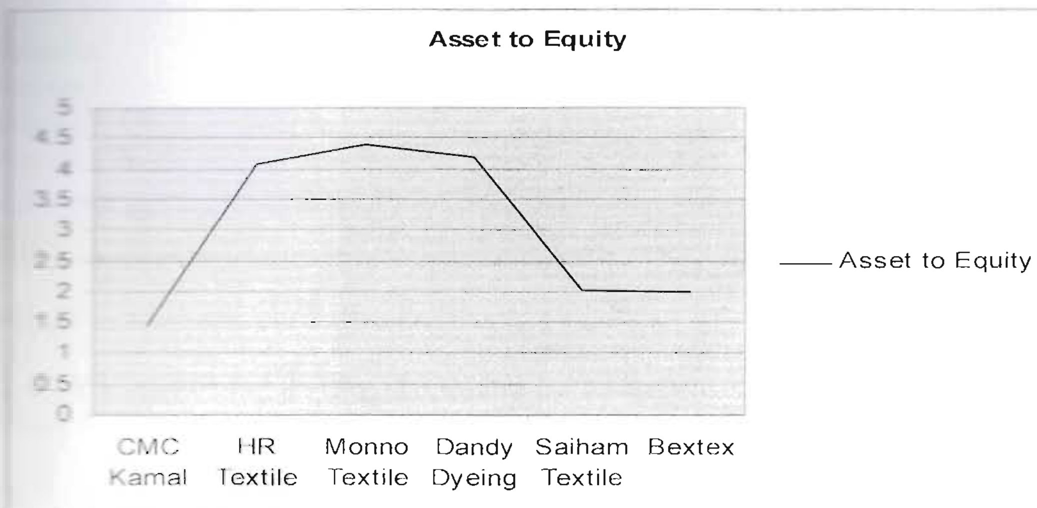
EBIT is highest for HR Textile and lowest for Dandy Dyeing. Other firms operate below benchmark 2.59 except Saiham textile which is 6.69. Having higher EBIT is a great advantage for HR textile. The same scenario has happened for pretax margin. Saiham Textile possesses the highest ratio 6.32 and Dandy Dyeing has the lowest ratio -31. Higher ratio shows profitability whereas lower ratio shows loss of the firm. Saiham Textile is in the highest profit and ratio is also highest which is 6.023 and the lowest ratio is -31 which is the result of Dandy Dyeing operation.



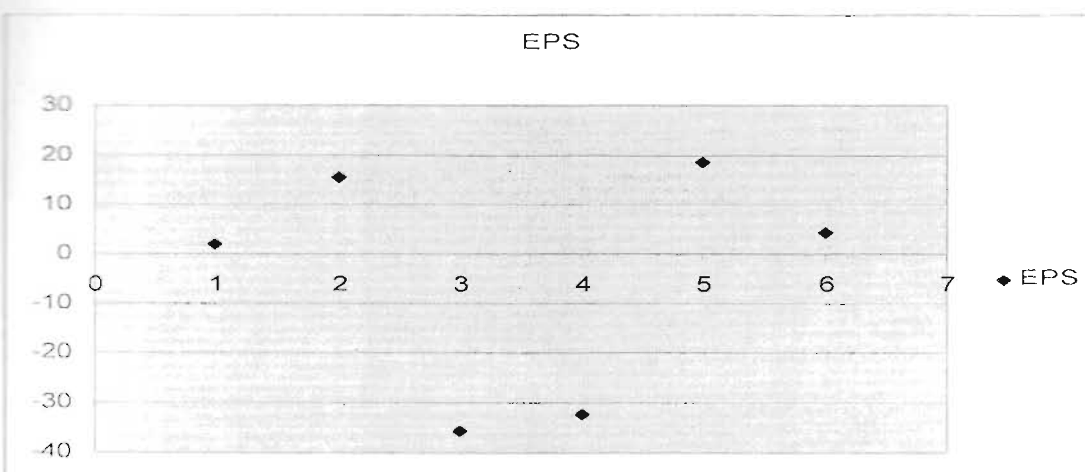
ROA is highest for Saiham (8.016) and lowest for Monno Textile (-12). All the firms ROA is above benchmark 3.21. It is a good result of the textile industry. ROTC is higher for HR Textile 18.65 and lower for Monno Textile -12. The other firms operate above the benchmark 7.65. ROE is also highest for Bextex and lowest for Monno Textile. They have significant impact in the industry



The capital structures of the firms are very dynamic. **The highest asset to equity ratio is 4.38 of Monno Textile 4.38 and the lowest ratio is 1.44 of CMC Kamal**. Other firms ratios are clustered to the industry average 3.021.



The Basic EPS is highest for Saiham 18.75 and the lowest EPS earned by CMC Kamal which is 1.92.



Leverage Effect Analysis

Findings:

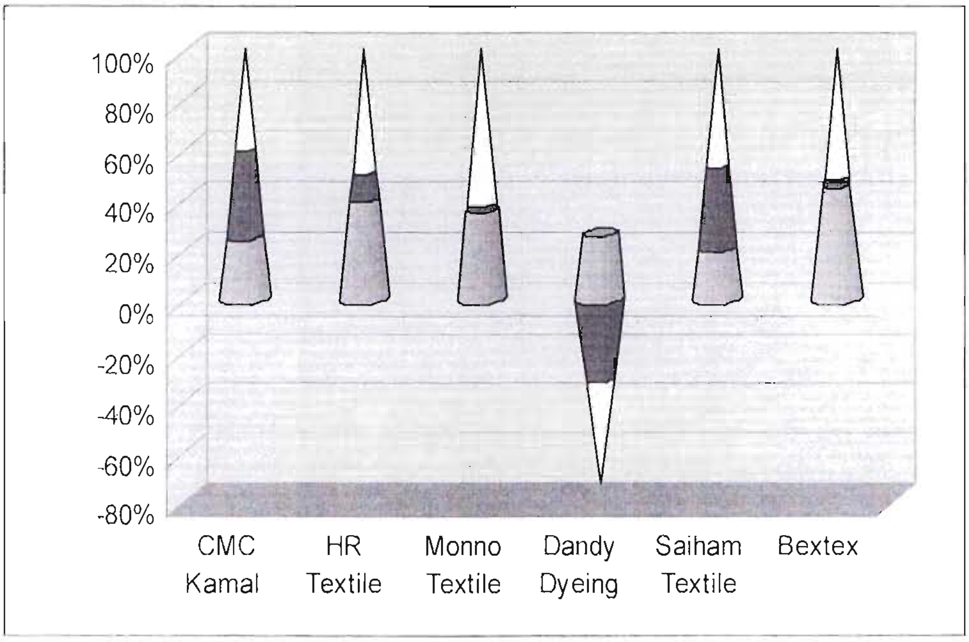
	CMC Kamal	HR Textile	Monno Textile	Dandy Dyeing	Saiham Textile	Bextex	Benchmark
Operating Leverage Effect	1.18	4.678	12.22	1.32	1.412	17.725	6.4225
Financial Leverage Effect	1.58	1.227	0.6	-1.58	2.229	1.126	0.8636
Total Leverage Effect	1.86	5.738	20.56	-2.09	3.147	19.958	8.1955

Analysis

The OLE is higher for Bextex 17.725 and lower for CMC Kamal 1.18. Bextex bears the highest risk. If fixed leverage increases, risk level of the firm increases.

FLE is also highest for Bextex and lowest for Monno Textile.

The TLE is highest in Bextex and lowest in Dandy Dyeing. It indicates for a given level of change in sales EPS changes four times.



10.0 Conclusion

In this report, I tried my best to provide a clear and descriptive analysis of the Textile Industry of Bangladesh. I provided necessary graphs, tables and included necessary ratios to form a clear picture about the activity, liquidity, solvency and profitability position of the discussed firms in this industry.

Here I was able to use the theoretical knowledge learned in all my courses in the setting of real world. Despite some problem raised in the creation of this report writing process. I would like to express my gratitude to my honorable supervisor for providing necessary guidance.

The textile industry of Bangladesh is an imperative sector. in Bangladesh, as such this report provided me with an in depth insight into this industry, revealing its strengths and weaknesses. Some companies in the industry are operating efficiently. namely HR Textiles Mills Ltd, Saiham Textiles Ltd while other are not, thus dragging down the industry average.

This process has opened my eyes and given me an in-depth look into real life financial world in the context of Bangladesh, something I hope to incorporate in my future life.