©Business Review: Volume 05, Number 01, January to June, 2005, pp. 13-17, Business Administration Discipline, Khulna University, Khulna-9208, Bangladesh. (ISSN 1811 - 3788)

business
R E V I E W
a journal of business administration discipline

An Evaluation of Financial Performance of Kiam Metal Industries Limited (KMIL)

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Abstract

The study is planned to evaluate the financial strengths and weaknesses and to make suggestions to improve its financial position. The data are collected from secondary sources. To analyze financial performance some key variables are selected like Liquidity Ratios, Solvency Ratios, Profitability Ratios and Activity Ratios. From the analysis and interpretation of data it was observed that the company's managerial performance, profit earning capability etc. are in very good position. The reasons for these positions were due to proper management, planning and control of working capital, operational efficiency, adequate credit policy, high labor efficiency, good quality raw materials, good marketing forces, adequate and good storage facilities etc.

Key Words: Evaluation, Financial performance, Metal industry

Introduction

Financial statements provide a summarized view of the financial position and operations of the firm. A firm communicates financial information to the users through financial statements and reports. Financial statements contain summarized information of the firms financial affairs, organized systematically.

Management, creditors, investors and others to form judgment about the operating performance and financial position of the firm use the information contained in the financial statements. The term financial statements as used in modern business refer to two statements i.e. the balance sheet or statement of financial position reflecting the assets, liabilities and capital as on a particular date and income statement or profit or loss statement showing the results achieved during a certain period which are prepared at the end of accounting period for a business enterprise. In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. In a profit making enterprise external investors and long-erm creditors measure management performance through the use of financial statement ratios. agement of the firm would be interested in every aspect of the financial analysis. It is their overall responsibility to see that the resources of the firm are used most effectively and efficiently and that the firms financial condition is sound.

Background of KMIL

Kiam Metal Industries Limited is a private limited company which was incorporated in 1990 and then operating its activities continuously. It is situated 5(five) Km away from Kushtia town at BSCIC industrial estate Kushtia-700.The main objectives of the company are to manufacture aluminum utensils and enamel ware for domestic consumption particularly for common people.

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Considering the demand of the day, it has been added pressure cookers, non-stick cook ware and plastic table ware of its production line.

Objectives

Objectives of the study are as follows:

- To evaluate the overall financial position and performance of KMIL during 2000-2001 to 2004-2005.
- To find out financial soundness of the company.
- To enhance better profitability some suggestions are given for the KMIL.

Methodology

The Kiam Metal Industries Limited has been selected for an in-depth study of the analysis and interpretation of the financial statements of the company. The study covers a period of 5 financial years from 2000-2001 to 2004-2005.The study is based on secondary data contained in the annual reports and annual accounts of the company during the period under study. The data have been collected from the company by visiting personally. Different ratios are used to analyze and interpret the collected data.

Analysis and Findings

The focus of financial analysis is on key figures in the financial statements and the significant relationships that exist between them. The analysis of financial statements is a process of evaluating relationships between component parts of financial statements to obtain a better understanding of the firm's position and performance. This section covers liquidity, solvency and stability, profitability situation and efficiency on overall activities focusing the interdependence of the same through selected ratios.

It is extremely essential for a firm to be able to meet its obligations as they become due. Liquidity means the ability of the firm to meet its current obligations. A firm should ensure that it does not suffer from lack of liquidity and also that it does not have excess liquidity. The failure of a company to meet its obligations due to lack of sufficient liquidity will result in a poor credit worthiness, loss of creditors' confidence or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad, idle assets earn nothing. The firm's funds will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity. To test the liquidity atmosphere of the company, some criteria can be used namely current ratio, liquidity or quick ratio, inventory turn over ratio, debtors turn over ratio etc. Table-1 shows respective position of these ratios in the KMIL during the study period.

Table-1 Ratios Measuring Liquidity Position of the KMIL during 2000-2001 to 2004-2005.

Years	Current Ratio	Quick Ratio	Inventory Turn over Ratio	Debtors Turn-over Ratio (days)
2000-2001	1.30	0.39	12.45	9
2001-2002	1.25	0.51	16.43	8
2002-2003	1.24	0.39	12.79	10
2003-2004	1.00	0.28	9.18	11
2004-2005	7.47	1.05	7.10	14
Average	2.45	0.52	11.59	10
Maximum Level	7.47	1.05	16.43	14
Minimum Level	1.00	0.28	7.10	8

Source: Annual Reports of the Company

Table-1 indicates that the current ratio was adverse in the year 2000-2001 to 2003-2004, but that was higher than the standard in the year 2004-2005. The average of the current ratio was 2.45 for the study period. Normally a ratio of 2:1 is considered good. The higher the ratio the more assurance exists that the retirement of current liabilities can be made.

The current ratio measures the margin of safety available to cover any possible shrinkage in the value of current assets. A very high degree of liquidity is also bad, idle assets earn nothing. The average of the quick ratio was only 0.52, which was lower than the standard norms of 1:1. The average inventory turnover was 11.59 times during 2000-2001 to 2004-2005. The inventory turn-over shows how rapidly the inventory is turning into receivable through sales. Generally, a high inventory turnover is indicative of good inventory management. The average inventory turnover of this company shows a good sign of inventory management.

The debtors' turnover ratio is another indicator to judge the liquidity position of the company. The average debtors' turnover was 10 days. The liquidity position of the company indicates that the average quick assets are not maintained in adequate volume, which may bring risk for the company. Except quick ratio, liquidity position in an average is good enough during the study period.

Table-2 Ratios Measuring Solvency and Stability Position of the KMIL during 2000-2001 to 2004-2005.

Years	Proprietary Ratio	Debt-equity Ratio	Debt-capital Ratio	Proprietors Fund to total Liabilities	Interest Coverage Ratio
2000-2001	0.39	0.73	0.42	1.22	1.26
2001-2002	0.34	0.85	0.46	1.05	1.01
2002-2003	0.50	0.64	0.39	1.37	2.43
2003-2004	0.40	1.09	0.52	0.83	4.31
2004-2005	0.28	2.01	0.68	0.45	0.31
Average	0.38	1.06	0.49	0.98	1.86
Maximum Level	0.50	2.01	0.68	1.37	4.31
Minimum Level	0.28	0.64	0.39	0.45	0.31

Source: Annual Reports of the Company

The proprietary ratio indicates the proportion of total assets financed by owners. The higher the ratio the stronger is the financial position (Banerjee, 1987). There is no universal accepted norm for this ratio. However, as a rule of thump 60% to 75% of total assets should be financed by the proprietors own funds (De, 1983). Table-2 shows the average proprietary ratio was 0.38, which was not so good.

Debt-equity ratio reflects the relative claims of creditors and shareholders against the assets of the company. The average debt-equity ratio of the company during the study period was 1.06, which was very near to the standard norm of 1:1. This is good sign of credit management of the company. The debt to total capital ratio indicates the total debt burden of the company.
Table-2 shows average debt to capital ratio is 0.49, which indicates the good position of solvency. Average proprietors fund to total liabilities of the company was 0.98.

The larger the interest coverage, the greater the ability of the company to handle fixed-charge liabilities and the more assured the payment of interest to the creditors. But too high a ratio may imply unused debt capacity. The average interest coverage ratio of the company is 1.86, which is not bad.

Table-3 Ratios Measuring Solvency and Stability Position of the KMIL During 2000-2001 to 2004-2005.

Years	G/P to C/E	N/P to C/E	G/P Ratio	N/P Ratio	Turn over on C/E	Earning Power Ratio
2000-2001	19.29	1.60	11.08	0.92	1.74	0.01
2001-2002	19.38	2.48	1.99	1.41	1.76	0.01
2002-2003	17.07	3.43	11.46	2.31	1.49	0.02
2003-2004	19.72	4.34	12.00	2.64	1.62	0.02
2004-2005	9.24	2.45	12.13	3.21	0.76	0.02
Average	16.96	2.86	11.53	2.10	1.47	0.016
Maximum Level	19.72	4.34	12.13	3.21	1.76	0.02
Minimum Level	9.24	1.60	1.99	0.91	0.76	0.01

Source: Annual Reports of the Company
[G/P-Gross Profit, C/E- Capital Employed, N/P- Net Profit]

Table shows the percentage of gross profit to capital employed was positive during the year 2000-2001 to 2004-2005, and the highest ratio was in the year 2003-2004 (19.72). The average of gross profit to capital employed ratio during the study period was 16.96%, which is quite satisfactory. The average percentage of net profit to capital employed is 2.86 during the study period.

Gross profit ratio and net profit ratio both are positive during the study period. The average gross profit ratio and the average net profit ratio was 11.53 percent and 2.10 percent respectively, this indicates very good profitability of the company.

Actually net profit ratio shows the relationship between net profits and sales of a firm. It is an indicator of the firm's ability to cover each taka of sales into net profits after interest and taxes. Using this ratio it is possible to measure the management efficiency. Capital turnover ratio shows the efficiency of capital employed in the business by computing how many times capital employed is turned over in a stated period. The higher the ratio the greater is the profit. A low capital turnover means that sufficient sales are not being made and lower are the profits. The average turnover of capital employed was 1.47 times which was not so good. So, the company should try to improve its capital utilization. The earning power ratio shows the profit earning capability of the company. The average earning power ratio of the company is 0.016

Table-4 Ratios Measuring Efficiency in overall activities of the Company During 2000-2001 to 2004-2005.

Years	Inventory to W/C Ratio	F/A Turnover Ratio	Total Assets Turnover Ratio	Operating Ratio
2000-2001	69.87	1.40	0.64	0.99
2001-2002	59.08	1.29	0.67	0.99
2002-2003	68.46	1.61	0.74	0.98
2003-2004	71.94	1.48	0.63	0.97
2004-2005	79.61	1.20	0.57	0.97
Average	69.79	1.40	0.65	0.98
Maximum Level	79.61	1.61	0.74	0.99
Minimum Level	59.08	1.20	0.57	0.97

Source: Annual Reports of the Company

The inventory to working capital ratio shows that the average investment in inventory was 69.79 percent during the study period. The turnover of fixed asset ratio indicates that an average 1.40 times was the turnover of fixed assets. The average turnover of total assets was 0.65 times. But above the turnover of fixed assets and total assets are not satisfactory. The analysis regarding the

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efficiency of fixed assets and total assets shows the less utilization of fixed assets and total assets. The operating ratio shows how much sales are required to cover the operating costs. The operating ratio indicates that every Taka of sales the operating expenses incurred Tk. 0.99, Tk. 0.99, Tk. 0.98, Tk. 0.97, and Tk.0.97 in these years.

Conclusions and Recommendations

The aim of this article has been to point out the financial condition of KMIL. From the foregoing discussion and overall analysis, it can be concluded that without few ratios maximum ratios i.e. liquidity, profitability, solvency and over all activities of the company are sound enough and balanced because of the continuing operating profits of the company. From the study period, it can be said that the company always tried to balance between cost of production and sales revenue. The company's all activities are managed by efficient and dynamic business personalities. In the mean time, the company has successfully established diversity market within the country keeping in mind the present market demand. On the basis of all the findings, some recommendations are made for the betterment of the company- Company should try to maintain proper balance between current assets and current liabilities; more publicity and advertisement should be made for increasing sales volume; for increasing foreign sales export fair is important.

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