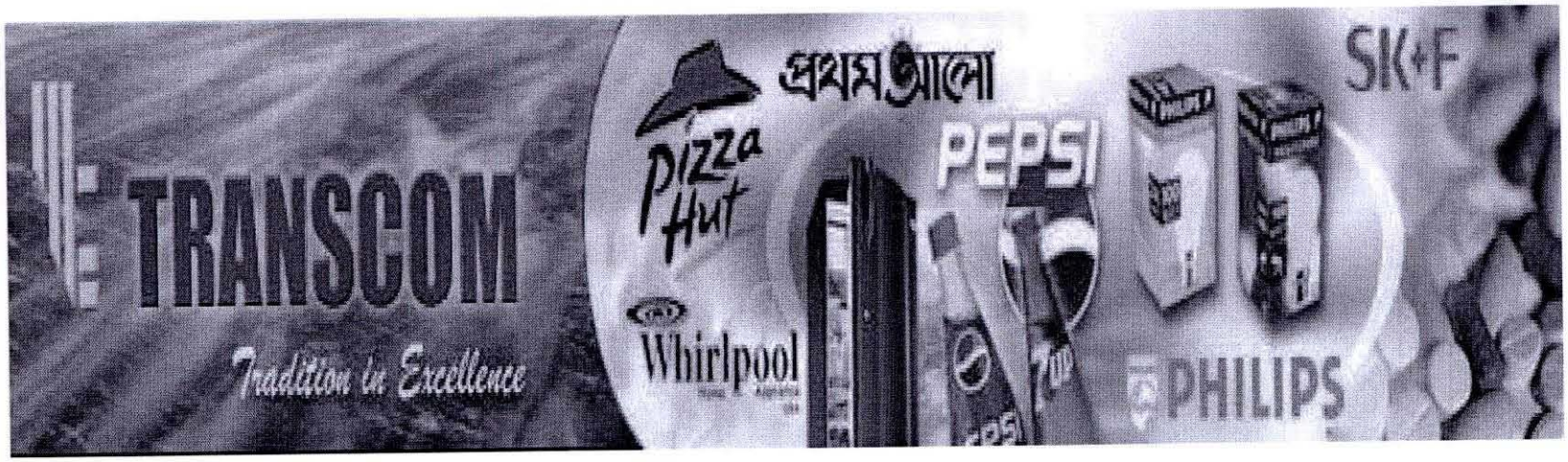

Performance Evaluation & Forecasting for The Future Performance Of Transcom Electronics Limited

Internship Report

On

Performance Evaluation & Forecasting for The Future Performance Of Transcom Electronics Limited

Submitted to:

Ms. Farzana Choudhury

Assistant Director

Carrier Placement program

Institute of Business Administration

BRAC University

Submitted by:

Sazedul Islam

ID# 01204028

MGB Department

BBA Program

Date of submission

31st Auagust, 2006

BRAC UNIVERSITY

BRAC University

Letter of Transmittal

August 31st, 2005

Ms. Farzana Choudhury

Assistant Director

Carrier Placement program

Institute of Business Administration

BRAC University

Subject: Submission of Internship Report

Dear Mam,

I am very happy to submit my Internship Report assigned to me at the completion of my BBA curriculum.

While working on the report, I have tried to follow each and every guideline that you had advised. It has been a very enlightening experience to work on this project and I have thoroughly enjoyed my internship period at Transcom Electronics Limited. The authority of Transcom Electronics Limited has also extended their cooperation as and when required.

I hope you will accept my report and kindly oblige.

Sincerely,

Sazedul Islam

ID # 01204028

Bachelor in Business Administration (BBA)

Contact: 0189-464611, 7115733

Acknowledgement

This internship report would not be completed without the help and cooperation of the following people. First of all I would like to thank honorable faculty member and my internship advisor Ms. Farzana Choudhury , Assistant Director, Carrier Placement program for giving me the permission to work on this topic. My special appreciation and sincere gratitude goes to her for the clear guidelines given, which was very help for me to understand and prepare the structure of the paper.

Next, I would like to thank Transcom Electronics Limited authority for their cooperation in doing this project. I would specially like to thank my internship co-coordinator for the organization **Mohammad Nazmul Kabir**, Manager of Accounts & Finance Department for his necessary support and cooperation. I gratefully acknowledge the valuable time that Mr. Nazmul Kabir has spared for me.

Finally, I would like to thank all my **colleagues** of TEL Finance & Accounts department who gave me necessary help, support and information to complete this report successfully.

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Executive Summery of the Report

The internship program is a requirement to get BBA degree. As part of my internship program I was assigned to complete my organizational attachment at Transcom Electronics Ltd. I am posted under the Department of Finance and Accounts. This company had originated with tea plantation in 1885; today it is one of the leading and fastest growing diversified business houses in Bangladesh employing over 5000 people. Not many industrial groups in Bangladesh can claim a history of continuous business pursuits stretching back over 100 years. Initially tea and jute formed the backbone of the family business. Although these are still part of the activities, they contribute marginally to the overall group turnover. These early industrial ventures have moved over to businesses involved in high-tech manufacturing, international trading and distribution, forming strong ties with a host of blue chip multinational companies. In recent years Transcom has emerged as an increasingly significant media house in Bangladesh.

The Department of Finance and Accounts deals with the banks, dealers' channels and other parties for payments their bills and collects receivable and also prepared annual budget, balance sheet, income statement and cash flow statement. My primary job in this department is to cooperating finance and accounts team. My responsibility was to cooperate the Financial and Accounting team. The team needs some analysis of bank reconciliation and preparation of bankbook, which I give them whenever they need. Doing such job there is an opportunity to learn how the office work gets done. Time management is a very crucial factor to manage.

I am doing project on the financial performances of the Transcom Electronics limited. For the project, I have to do the financial evaluation of the last five years (2000-2004) Balance Sheet and forecasting their future performance.

A. THE ORGANIZATION

1.0. Introducing the Company

1.1 The Company

Originated with tea plantation in 1885 is today, one of the leading and fastest growing diversified business houses in Bangladesh employing over 5000 people. Not many industrial groups in Bangladesh can claim a history of continuous business pursuits stretching back over 100 years. Initially tea and jute formed the backbone of the family business. Although these are still part of the activities, they contribute marginally to the overall group turnover

1.2 Transcom Today

These early industrial ventures have moved over to businesses involved in high-tech manufacturing, international trading and distribution, forming strong ties with a host of blue chip multinational companies. In recent years Transcom has emerged as an increasingly significant media house in Bangladesh

1.3 Transcom Electronics Limited

Transcom Electronics Ltd. The company is the official licensee of PHILIPS ELECTRONICS N.V. Holland for lighting products, Radio and TV sets.
The lighting division distributes PHILIPS lighting products to over 45000 outlets all over the country through an extensive dealer network. A separate professional lighting team handles energy saving, special applications and sports lighting. The consumer electronics division distributes PHILIPS television, radios, music systems and domestic appliances.
It is also the authorized sole distributor in Bangladesh for WHIRLPOOL USA.
The products include refrigerators, freezers, washing machines, microwave ovens and domestic appliances.

1.3.1 Transtec:

To meet changing consumer preferences and to supply quality products in different market segments, TEL launched a new brand TRANSTEC in 2002 for the Bangladesh market, under which it is marketing light bulbs, fluorescent tube lights, dry cell batteries and other electrical accessory items.

1.3.2 Changhong:

Colour televisions from the world's largest manufacturer CHANGHONG, China being marketed throughout Bangladesh

1.4 Bangladesh Electrical Industries Ltd.

BEIL is a leading producer of televisions and radios in Bangladesh and is the official licensee of PHILIPS Electronics N.V. Holland. The company was incorporated in 1960 as a subsidiary of PHILIPS, Holland. In March 1993, PHILIPS sold its entire shares to TRANSCOM

1.5 Bangladesh Lamps Limited

BLL is the pre-eminent manufacturer of electric light bulbs in the country. The company has an exclusive licensing agreement with PHILIPS Electronics N.V. Holland, under which it manufacturers PHILIPS lighting products. BLL was incorporated in 1960 as a subsidiary of PHILIPS, Holland. In March 1993, PHILIPS sold its entire shares to TRANSCOM

1.6 Transcom Distribution Co. Ltd

TDCL is the largest independent distribution setup in Bangladesh with full infra structural facilities provided by a countrywide network of branch offices with warehouses and delivery vans. The company distributes quality pharmaceutical products manufactured by ORGANON, SERVIER, ESKAYEF and diagnostic products from ORGANON TEKNIKA. TDCL also markets and distributes color cosmetics, skin and hair care products from L'OREAL Paris, MAYBELINE New York and GARNIER Paris

Fritolay, the world's number one potato chips, is now being exclusively marketed and distributed all over Bangladesh by TDCL

1.7 Transcom Beverages Limited

On the basis of an exclusive Franchise for Bangladesh from Pepsico USA, TBL acquired three modern bottling plants at Dhaka, Chittagong and Bogra from BBIL, Dhaka; EBIL, Chittagong and NBIL, Bogra; in March 2000. TBL manufactures the famous Pepsi range of beverages-Pepsi, 7up, Mirinda Orange, Mirinda Lemon, Slice and Soda. As a corporate citizen Pepsico believes it has a responsibility to contribute to the quality of life in our communities. TBL has put into action this philosophy through support of social agencies, projects and programs and the scope of this support is extensive and it has not been difficult to blend with this philosophy since the TRANSCOM group also followed such a corporate ideology

1.7.1 Beverage distribution Limited

BDL is the distribution arm through which all Pepsi products are distributed all over Bangladesh

1.8 Incandescent Gls Group

Instantaneous light, low installation cost and warm color tone for a wide variety of interior & exterior applications

1.9 High Intensity Discharges & Halogen Lamps

1.9.1 HID Lamps (Blended, Ballasted & Blended Mercury Ml.):

A range of high intensity discharge lamps delivering very high lumen with increased efficacy to encounter the needs of lighting up high ceilings in industrial indoors and outdoor lighting applications

1.9.2 High Pressure sodium Lamps(Son & Son-T):

Lamps for precise optical control, ideal for Highways, Stadiums, Airports, Warehouses, etc.

1.9.3 Metal Halide Lamps (HPI-T & HPI-BU) :

They offer unique combination of natural white color appearance and high luminous efficacy as well as a very long life.

1.9.4 Low Voltage Halogen Reflector Lamps

Halogen dichotic reflector lamps used for accent lighting and general lighting with life time of 2400 hrs operating at 12 volt. UV suppressed and watt range of 20w, 35w and 50w. Available at different beam angles from 12 to 36

1.10 Compact Fluorescent Lamps & Energy Savers

1.10.1 Ecotone Crystal:

These light weight (compact fluorescent) lamps are available in 11w, 15w, 18w & 20w as a replacement fro 60, 75 & 100w.

1.10.2 Ecotone Decor:

The ignite instantly and consume 80% less energy than regular GLS lamps.

1.10.3 Ecotone Ambiance:

Lamp life is around 10,000 hrs; which is 10 times longer than normal GLS (5 yrs at 3-5 hours a day). They also give off much less heat.

1.11 Fluorescent Tube Lights, Starter, Ballasts & Luminous

1.11.1 Tublar Fluorescent Lamps (Tube lights)

High luminous efficacy, good colour rendition and long service life.

1.11.2 Starter:

Philips excellent quality Glow-switch starter type S10 provides reliable starting. Voltage range 220-240 Wattage range 2-65 Wattage.

1.11.3 Ballast (Conventional & Electronic) :

Philips ballast for energy saving and enhancing life of Tl fluorescent lamps

1.11.4 Luminaries:

Fitting accessories for Tl fluorescent lamps

1.12 Transfin Trading Ltd.

Transfin is the sole distributor of SANYO Japan, marketing refrigerators, freezers, microwave ovens, washing machines, air-conditioners, Televisions etc.

1.13 Trinco Limited

Trinco is the sole distributor of DAEWOO ELECTRONICS Korea. It markets DAEWOO televisions, washing machines, microwave ovens, audio and video equipments

1.14 Tea Holdings Ltd.

THL is an exporter of Tea, Jute goods and Petroleum products. It is also involved in warehousing, import and sales of agricultural commodities. It has been awarded the Presidents Export Trophy for outstanding export performance. The company markets and distributes phone and IT network components from KRONE Germany. The company represents VITOL Switzerland and Singapore for petroleum products Manufacturing

1.15 Mediastar Ltd.

PROTHOM ALO, the largest circulated daily newspaper has established itself as an independent and respected voice in the field of media in Bangladesh

1.16 Mediaworld Ltd.

THE DAILY STAR is the leading and most quoted English newspaper in Bangladesh. The company also publishes the Bengali SHAPTAHIK 2000 a quality political and current affairs weekly and ANONDODHARA, the premier film and entertainment fortnightly.

1.17 Eskayef (SK+F) Bangladesh Limited

The company, which was incorporated in 1980 as a subsidiary of SMITH KLINE & FRENCH USA, was acquired by Transcom in 1990. Eskay Eskayef ef manufacturing high quality pharmaceuticals product and particularly strong in antibiotics.

1.18 Pizza Hut

They are the main distributor of Pizza hut.

2.0 Organization Structure of Transcom

2.1 Operation Network Organogram

Transcom's Operation network organogram is given below:

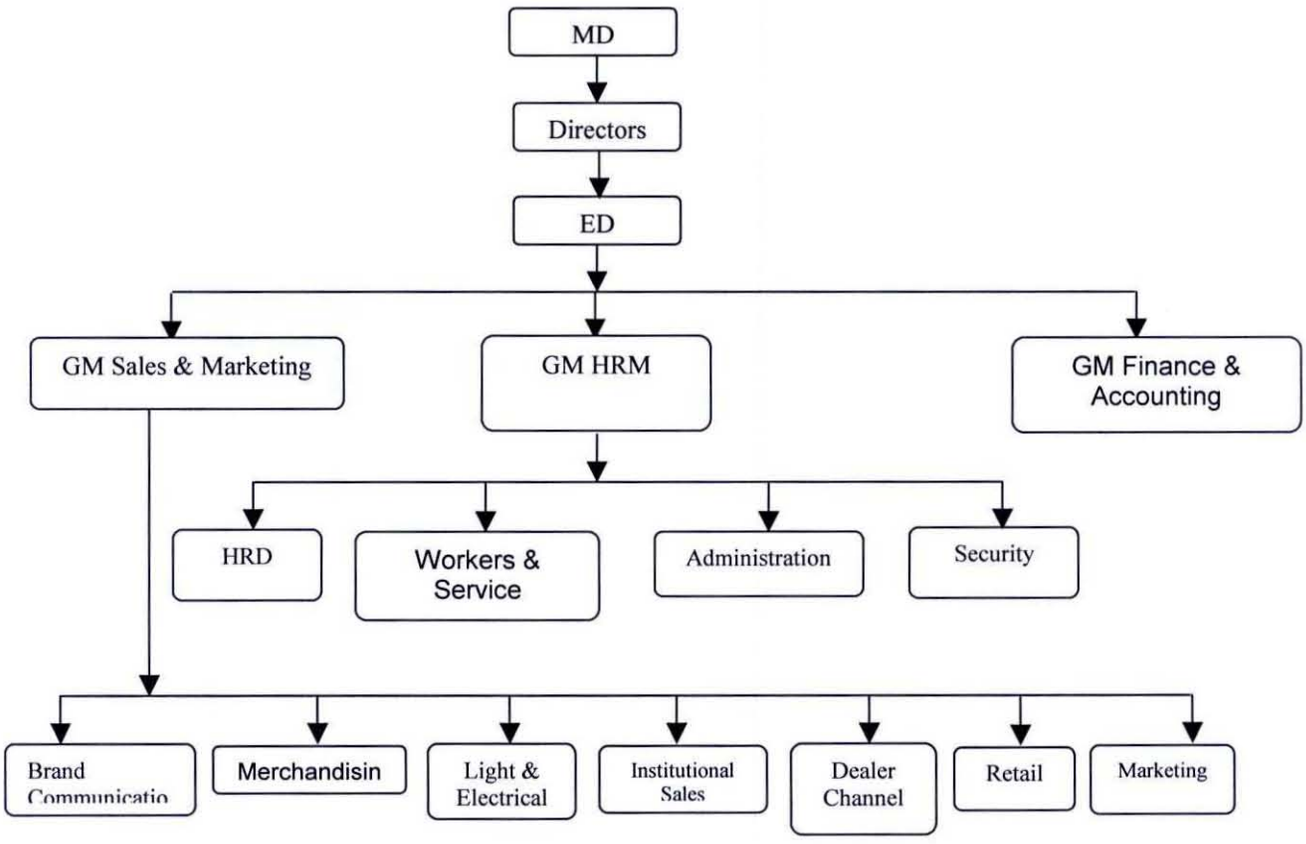

Chart-1: Organogram of Transcom Electronics Limited

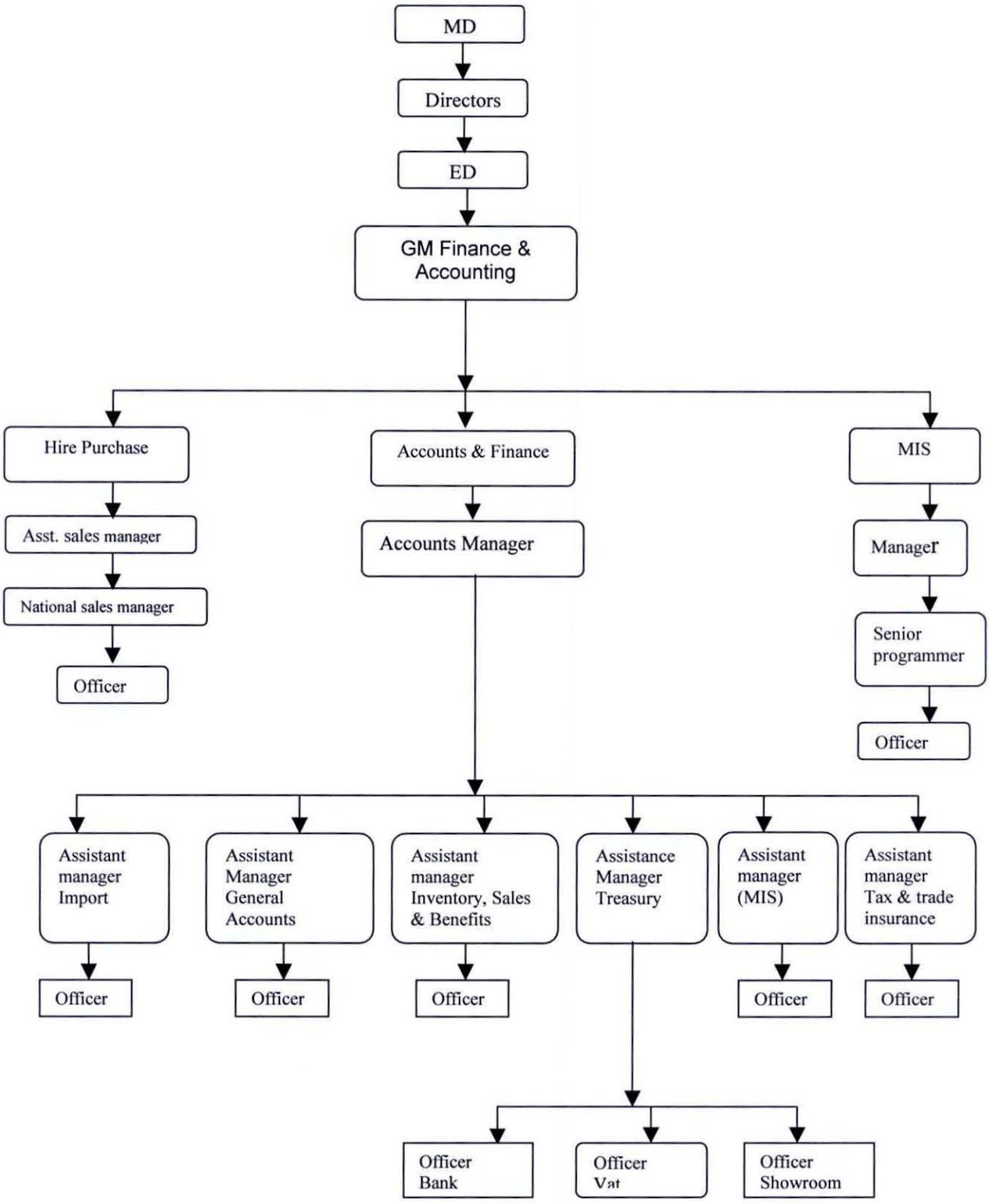

Chart-2: Structure of Finance and Accounting department

3.0 Vision for the future

The Vision of the company is **"To be the leader in the Electronics industry in the region and provide a complete solution and the brand image to the precious customers."** There is an emphasis on creating a strong brand image in the customers' mind. Such customers will require strong support for brand loyalty to develop.

B. ABOUT THE JOB

4.0 Job description

As a part of successful completion of BBA program, every student has to do the internship either after completion of all courses or before the completion. The objective of internship is to learn the real world work place and practice the type/style/nature of actual job performance. The intern student are placed in any business organization and posted to the position in which they are interested. I Sazedul Islam am placed in Transcom Electronics Limited as an intern to gather the knowledge of the real work place to prepare myself to face the real challenges of the job market.

4.1. Description / nature of the job/s

Nature of job: Intern

Company: Transcom Electronics Limited.

Department: Finance and Accounting Department

Duration of the contract: June2006 – August, 2006

4.2. Specific responsibilities of the job

I am doing project on the financial performances of the Transcom Electronics limited. For the project, I have to do the financial evaluation of the last five years (2000-2004) Balance Sheet and forecasting their future performance. My responsibility was to cooperate the Financial and Accounting team. The team needs some analysis of bank reconciliation and preparation of bankbook, which I give them whenever they need. Doing such job there is an opportunity to learn how the office work gets done. Time management is a very crucial factor to manage. Every work has to be finish on time.

4.3. Different aspects of job performance

There are different factors which are the basis of the job performance evaluation. As an internee my supervisor had his own factors of evaluation. The key factors are

- Understanding the Journals, Legers, Cash flows, bank reconciliation and different types of payments.
- Preparation of bankbooks.
- Punctuality
- Team work
- Willingness to learn and cooperate
- Amiability

C. PROJECT

5.0 Executive Summery of the Project

This report has done as a requirement for the Internship program. The basic purpose of this report was to find out the financial performance of Transcom Electronics Limited, which is the one of the leading companies in the electronics in Bangladesh. To fulfill this purpose I tried to accomplish some Objectives like Identify whether the invested capital gives desired return, Operating efficiency, Company's position within the industry, Companies financial performance in the recent years and Forecasting for the next few years, till 2009. I used both primary and secondary sources of information to collect data. For collecting primary data I took interviews and for secondary data, Transcom Electronics Limited, annual reports and other publications were reviewed.

After the analysis, I found that up to 2004 their performance was not satisfactory and they did not meet the standard. The major causes of this deprived performance were to increase in liabilities especially current liability and high administrative cost. Their current liability was 10 times higher than their long-term liability and in 2004 it has been increased by 21% than previous year. Their total debt ratio was 86% in 2004 and has possibilities to increase in the future. This debt carried a huge amount of financial cost, which hampered their profit margin. The Firm has generated loss from 2000-2004 and their total assets has been decreased by 15% from 2003 to 2004. From all these stated information, I can say that if the management would not able to maintain their debt and expenses, the firm will face immense difficulty to run their business in the future.
In this report I have discussed about their financial performances, discussion on external factors that affect the performance of financial institutions, discussion on internal factors that can be controlled by financial institution managers and give some recommendation for future improvements.

6.0 Introduction to the Project

The topic of my internship project is "Financial performance and forecasting for the future of Transcom Electronics Limited."

6.1 Background of the Study

The internship program is a requirement to get BBA degree. As part of my internship program I was assigned to complete my organizational attachment at Transcom Electronics Ltd. I have started the internship there from June01, 2006 and after 12 weeks of practical exposure, under the supervision of Mohammad Nazmul Kabir of Transcom Electronics Ltd and faculty supervisor Ms.Farzana Choudhry my attachment will be complete. I am posted under the Department of Finance and Accounts.

The Department of Finance and Accounts deals with the banks, dealers' channels and other parties for payments their bills and collects receivable and also prepared annual budget, balance sheet, income statement and cash flow statement. My primary job in this department is to cooperating finance and accounts team

6.2 Scope of the Study

The term paper will be intended to provide the financial performance of the Transcom Electronics Limited and identify some drawbacks and make recommendation on it.

7.0 Description of the project

7.1 Problem statement

To evaluate the Financial performance and forecasting for the future of Transcom Electronics Limited.

7.2 Broad Objective

The broad objective basically is the narrower view of the problem statement. It is more specifically mentioned the pathway towards the problem statement. We can divide the statement into several points so that the task can be complete separately but jointly and with specific analysis and result for the perfection of the project paper.

- To find how the Transcom Electronics Limited performing financially.
- Forecast based on their ratios.

7.3 Specific Task

For the accomplishment of the broader objective, some sequential task is needed to be done. To find out the how the company is performing till today, I need to find some ratios and figures which will give the picture of whether they are meeting their target or not. For the sales forecasting, I choose trend analysis to evaluate their performance in the future.

The specific tasks are determined as follows

- To know whether the invested capital gives desired return.
- To know the operating efficiency.
- To know the company's position amongst the industry.
- To know the performance in the recent year.

7.4 Methodology

Data Source:

Both secondary and primary data will be required to conduct this research.

- **Primary source:** Primary data will be collected from interviewing the executives to find out how the company is financially performing and their personal view about the future performance of the company or whether they will be able to cover up the lacking they are facing now.
- **Secondary source:** As secondary data source, Website of Transcom Electronics Limited, Balance sheet of 2002 - 2004 and other related Documents would be used have a comprehensive picture of the financial outlook of the company.

7.5 Limitation

- **Data confidentiality:** Accesses to all the information of my desire are not readily available and sometimes they are too sensitive to be gathered, because their information is not published to public.

- **Unstructured data**: It was very difficult to analyze the unstructured information.

8.0 Financial Analysis

Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statements. The goal of such analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports. The analyst is attempting to measure the firm's liquidity, profitability, and other indications that business in conducted in a rational and orderly way. If a firm does not achieve financial norms for its industry or relationships among data that seem reasonable, the analysts note the deviations. The burden of explaining the apparent problems may then be placed upon management.

In this chapter, I will develop ratio analysis as the primary tools for examining the firm's financial position and performance. I will recognize two viewpoints in receiving and evaluating financial data:

1. **External Analysis:** This is performed by outsiders to the firm, such as creditors, stockholders, or investment analysts. It makes use of existing financial statements and involves limited access to confidential information on a firm.

2. **Internal analysis:** This is performed by the corporate finance and accounting departments and is more detailed than external analysis. These departments have available more detailed and current information than is available to outsiders. They arc able to prepare pro forma, or future, statements and are able to produce a more accurate and timely analysis of the firm's strengths and weaknesses

The two type of benchmark for making financial comparisons as follows:

1. **Time series analysis**: In this type of analysis, information for a single company is compared over time. For example; a company may have a current ratio of 1.2. Without additional information, this ratio does not tell us very much. Time series analysis might tell us that the ratio has declined each year for the past years, from a high of 2. This Time series information cause us to do future study concerning the factors that caused a steady deterioration if this ratio in the recent past.

2. **Comparison with similar companies**: Financial results often are affected by industry and economy wide factors. By comparing with other one in the same line business, the analyst can get better insight concerning specific company performance.

For my report, I choose time series analysis for analyzing the company's financial performance because the industrial data is not available in the market.

8.1 Separating Causes and Symptoms of Problems

Financial analysis is used primarily to gain insights into operating and financial problems confronting the firm. With respect to these problems, I must be careful to distinguish between the cause of the problem and a symptom of it. A cause is an event that produces a result or effect; in our case the result is a problem. A symptom is a visible indicator that a problem exists. The firm may observe symptoms, such as a low level of profits, but it must deal with causes of problems, such as high costs. If it does not deal with the problem cause, the firm will probably riot be able to correct the problem.

As we will see in this chapter, financial ratios are used to locate symptoms of problems. Once the symptoms have been located, the financial analyst must determine the cause of any problem. Then he must find a solution for it.

Financial Ratios

A ratio may be defined as a fixed relationship in degree or number between two numbers. In finance, ratios are used to point out relationships that are not obvious from the raw data. Some uses of ratios are the following:

1. **To Compare Different Companies in the same industry**: Ratios can highlight the factors associated with successful and unsuccessful firms. They can reveal strong firms and weak firms, overvalued and undervalued firms.

2. **To Compare Different industries**: Every industry has its own unique set of operating and financial characteristics. These can be identified with the aid of ratios.

3. **To Compare Performance in Different Time Periods**: Over a period of years, a firm or an industry develops certain norms that may indicate future success or failure. If relationships change in a firm's data over different time periods, the ratios may provide clues on trends and future problems.

From all the financial accounts on the balance sheet, income statement, and Cash flow funds statement, it is possible to formulate countless ratios. To be successful in financial analysis, the analyst must select only those ratios that provide significant information about a firm's situation.

8.2 Kinds of Ratios

Financial ratios may be classified a number of ways. One classification scheme uses three major categories:

1. **Liquidity Ratios:** These examine the adequacy of funds, the solvency of the firm, and the firm's ability to pay its obligations when due.
2. **Profitability Ratios:** These measure the efficiency of the firm's activities and its ability to generate profits.
3. **Tests of solvency and equity position:** It measure the ability of the firm's to meets its long-term obligation.
4. **Ownership Ratios:** These are generally linked directly or indirectly to profits and liquidity. They assist the stockholder in evaluating the firm's activities and policies that affect the market price of the common stock.

In my report, I will discuss only the first three kinds of ratio. Ownership ratio will not been discussed, because the firm's is a private limited company and has no common share in the market.

8.3 Liquidity ratio

A firm's ability to pay its debts can be measured partly through the use of liquidity ratios. Short-term liquidity involves the relationship between current assets and current liabilities. If a firm has sufficient net working capital (the excess of current as sets over current liabilities), it is deemed to have sufficient liquidity. Two ratios are commonly used to measure liquidity directly: the current ratio and the quick ratio, or acid test.

Analyzing Liquiditys

The cash, receivable, and inventory ratio should be used together to gain an overall grasp of the liquidity of the firm. I shall analyze each area and draw conclusion regarding the liquidity of Transcom electronics Limited, using the balance sheet and income state provided.

8.3.1 Current Ratio

The current ratio is a ratio of the firm's total current assets to its total current liabilities. A low ratio is an indicator that a firm may not be able to pay its future bills on time, particularly if conditions change, causing a slowdown in cash collections. A high ratio may indicate an excessive amount of current assets and management's failure to utilize the firm's resources properly. To determine whether this ratio is high, low, or just right, the analyst should consider such factors as the firm's past history, goals, and the current ratios of similar companies. As a general rule, a 2/1 ratio is considered acceptable for most firms.

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liability}}$$

Current Ratio

Year	2000	2001	2002	2003	2004
CA	390861273	401573683	345283151	378351589	500042447
CL	491389529	530093660	527873635	501183314	604030603
CR	0.7954	0.7576	0.6541	0.7549	0.8278

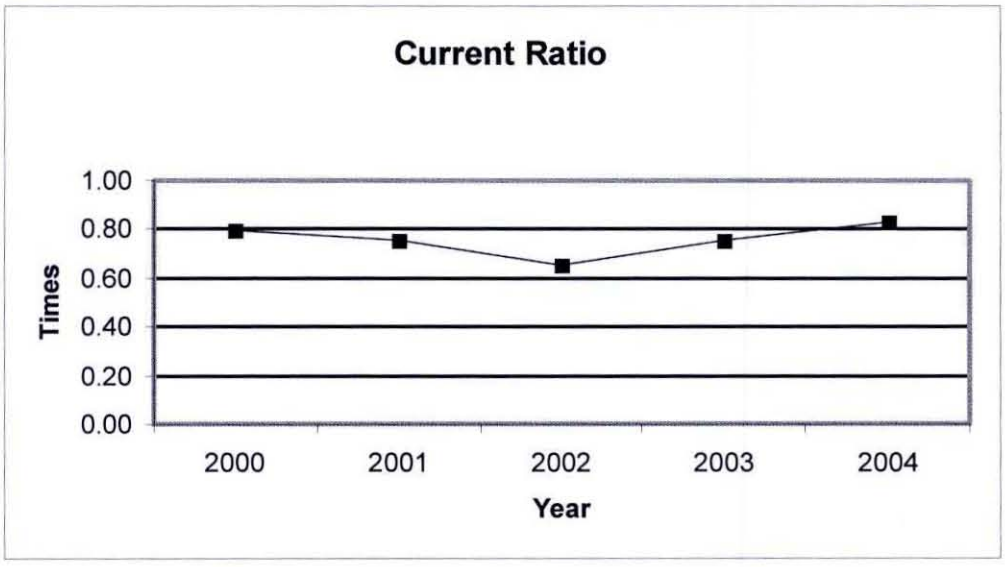

Fig-1: Current Ratio

Comments:

From the above analysis, I found that Transcom has a current ratio is 0.828/1 in 2004, which is less than the 2/1 guideline. It means, Transcom is not able to meet its current obligations or future bills payments on time. Between 2001 and 2002, the current ratio dropped from 0.758/1 times to 0.654/1 times, because during that time sundry debtors, advances, deposits and prepayments had decreased. The reason behind this reduction was the decrease in sales (TK.724599157 to TK.646414366). But the current ratio is slightly higher in the year 2003 and 2004. Within this period, they expand their business by increasing showroom.

8.3.2 Quick Ratio or Acid Test

The quick ratio, or acid test, is a more stringent measure of liquidity than the current ratio because inventories, which are the least liquid of current assets, are excluded from the ratio. The quick ratio may be calculated two ways:

$$\frac{\text{Cash + marketable securities + accounts receivable}}{\text{Current liabilities}}$$

Or

$$\frac{\text{Current assets — inventories}}{\text{Current liabilities}}$$

Inventories require a two-step process in order to be converted into cash. They must be sold, converted into receivables (with the markup), and collected. The acid test is so named because it shows the ability of a firm to pay its obligations without relying on the sale and collection of its inventories.

As a guideline, a 1 / 1 quick ratio has traditionally been deemed adequate for most firms. A higher ratio may have several meanings. It could indicate that the firm has excessive cash or receivables, both signs of lax management. It could indicate that the firm is too cautiously ensuring sufficient liquidity. A low ratio is usually an indication of possible difficulties in the prompt payment of future bills.

Quick Ratio

Year	2000	2001	2002	2003	2004
CA-Inventory	302689120	278645379	211100465	223123350	307120676
CL	491389529	530093660	527873635	501183314	604030603
QR	0.6160	0.5257	0.3999	0.4452	0.5085

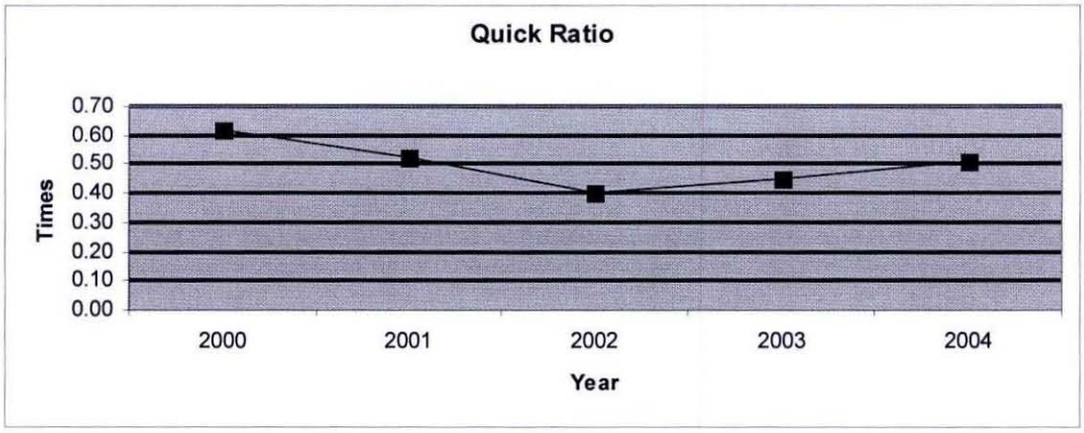

Fig-2: Quick Ratio

Comments:

Acid test ratio of the company was 0.508/1in 2004, which was less than the 1/1 standard. This low ratio is usually an indication of possible difficulties in the prompt payment of future bills. This quick ratio was also less than 1 for the last four years. Between 2001 and 2002, the quick ratio dropped from 0.506 to 0.400. From this information, I can conclude that Transcom had less liquid in 2002 than in 2001. The reason behind this drop was decreased sales. But the quick ratio was increased slightly in the year 2003 and 2004, which was the positive indication for the future.

8.3.3 Receivables Ratios

Two ratios are used to measure the liquidity of a firm's account receivables:

$$\text{Accounts receivable turnover} = \frac{\text{Sales}}{\text{Accounts receivable}}$$

$$\text{Average collection period} = \frac{\text{Accounts receivable}}{\text{Daily sales}}$$

The accounts receivable turnover is a comparison of the size of the firm's sales and the size of its uncollected bills from customers. If the firm is having difficulty collecting its money, it has a large receivables balance and a low ratio. II it has a strict credit policy and aggressive collection procedures, it has a low receivables balance and a high ratio. The average collection period compares the receivables balance with the daily sales required to produce the balance. If the firm has $1, 000 of sales each day and a receivable balance of $50,000, it took 50 days to accumulate the receivables (a highly simplified statement). More importantly, if neither sales nor receivables change, the firm needs 50 days to collect the $50,000 currently held as receivables. This is why the ratio reflects the average collection period.

Several techniques are available to help the manager analyze the significance of the receivables turnover and average collection period.

1. **Make Comparisons with Other Firms in the Industry:** Since conditions concerning the terms of trade and selling practices are usually similar through out industry, this comparison can indicate whether the firm is lax or strict in its collection and sales policies.

2. **Compare Ratios with the Terms of Trade:** The terms of trade are a very important factor in analyzing receivables. To illustrate let us compare two firms

with average collection periods of 44 days. Firms A has terms 2/10, n/30. For this firm, a collection period of 44 days means that a number or receivables are still uncollected on the final due date 30 days. Firm B has terms of 2/10, n /60. For this firm, 44 days means that collections are probably well within the 60 day period. Without further information, I could conclude that firm B is doing a better job of collecting its receivables than firm A

3. **Use Only net Credit Sales:** Sales figures may include both cash and credit sales. Since only credit sales become receivables, a more accurate turnover is given if only credit sales are used in the ratio. The same is true for the average collection period.

4. **Use Average Receivables Figures:** If the analyst takes the beginning and ending receivables balance and divides by 2, the average receivables balance may give a more accurate picture of turnover and collections than a single ending figure. A monthly view (add all the ending monthly balances and divide by 12) might be even more accurate. The averaging technique makes sense for firms whose ending receivables balance is not a normal figure.
5. **Avoid Cyclical Figure:** The analyst must always beware of applying ratio analysis to firms operating in industries with cyclical sales. The busy season will distort the ratios in one direction; the quiet season, in the other. Even the average of the busy and quiet periods may not be useful. It would he better to develop two sets of ratios: the turnover and collection period during (1) the busy period and (2) the quiet period.

I choose Compare Ratios with the Terms of Trade technique for analyzing the Transcom's receivable turnover and average collection period.

Recivable turnover

Year	2000	2001	2002	2003	2004
Sales	744318262	724599157	638078434	844312179	1059603446
AR	182057319	164196653	97883415	138148813	144454068
Recivable turnover	4.088	4.413	6.519	6.112	7.335

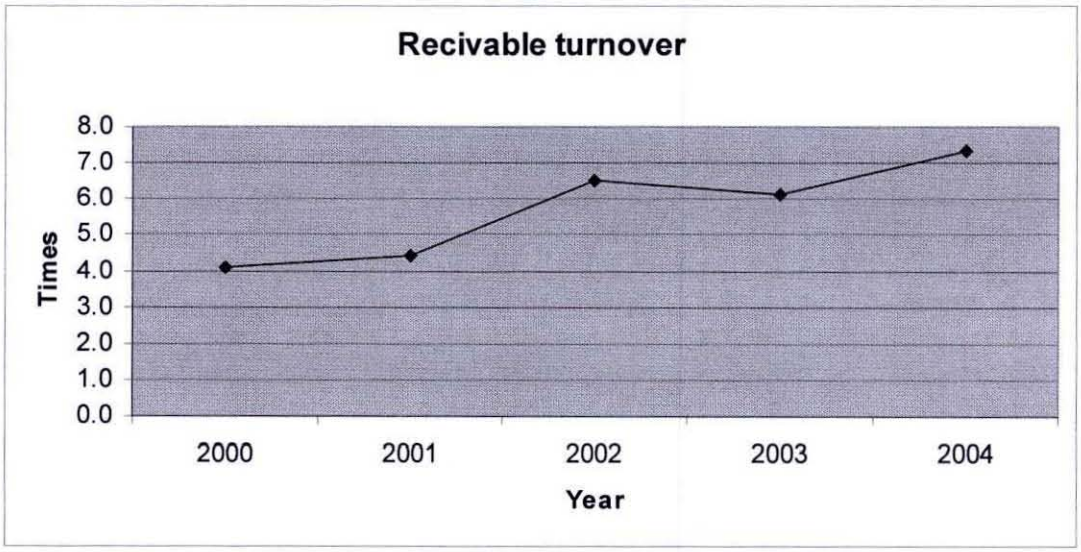

Fig-3: Receivable turnover

Comments:

From the above analysis, I found that the receivable turnover is increasing gradually. It means that Transcom has a strict credit policy and aggressive collection procedures. They were able to decrease the size of its uncollected bills from customer. Between 2002 and 2003 the receivable turnover dropped from 6.51 times to 6.11 times. From this information, I can say that the firm faced difficulty to collect its receivable during 2003. But in 2004, they were overcome this circumstances.

Average collection period

Year	*2000*	*2001*	*2002*	*2003*	*2004*
Recivable	182057319	164196653	97883415	138148813	144454068
Avg. sales per day	2067550.73	2012775.44	1772440.09	2345311.61	2943342.91
Average collection peri	88.05	81.58	55.23	58.90	49.08

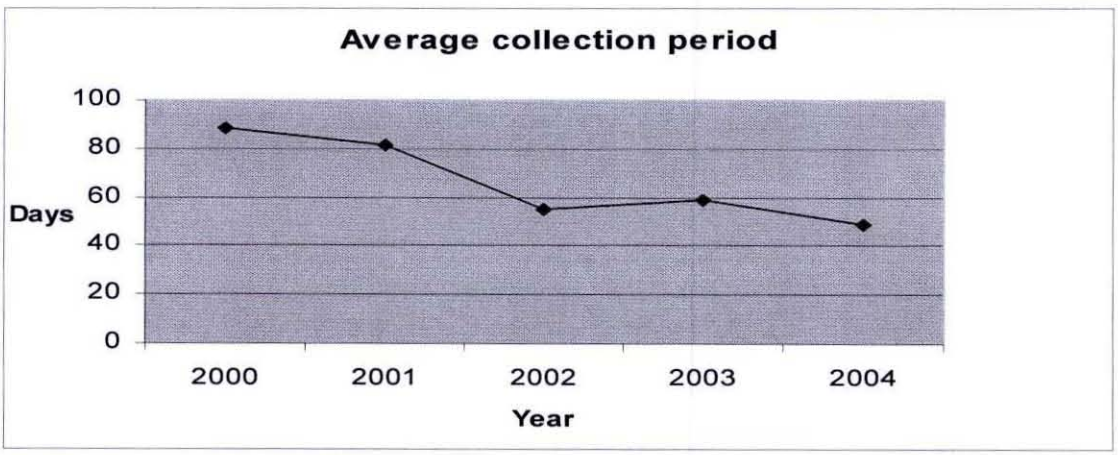

Fig-4: Average collection period

Comments:

From the above analysis, I can see that the average collection period of Transcom has been decreased over the period. It indicates that the management is becoming more efficient about collecting their receivables from the customers. But they have to improve more, because Transcom has the policy to collect the bills in 45 days. So, they need to more efficient to meet the policy of 45 days.

8.3.4 Inventory Turnover

The liquidity of a firm's inventory may be calculated by dividing the cost of goods sold by the firm's inventory:

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Inventory}}$$

The cost of goods sold is for the period being studied, normally 1 year. Two factors are important in calculating this ratio:

1. **Physical Turnover of Inventory Is Measured:** The sales figure includes a markup for profit. Thus, a $50 sale may turn over only $30 of inventory. The cost of goods sold in this case would be $30 and would measure actual movement of inventory.

2. **Average Inventory May be used:** The Inventory may be calculated using an average figure in a manner similar to averaging accounts receivable.

The significance of inventory turnover is that it helps the analyst measure the adequacy of goods available to sell compared to the actual sales. In this context, the carrying of inventory involves two risks:

1. **Running out of Goods to Sell:** In some industries, customers place orders and are willing to wait for production and delivery of the goods. In most industries, running out of stock means a loss of sales. When a customer immediately needs an item that the firm does not stock, it will be purchased elsewhere with a consequent loss of profit for the firm. If this happens repeatedly, it can be very costly.
2. **Excessive Carrying Charges due to Excessive Inventory:** Maintaining inventory requires the firm to make expenditures for storing the goods, protecting

them from theft or breakage, and handling them. If the firm maintains unneeded inventory, it is paying for unnecessary warehouse space, insuring goods that it need not hold, and incurring other costs that can be a financial burden on the firm. Because the manager must compromise between running out of goods to sell and investing in excessive inventory, either a high or low ratio may be an indication of poor management, as follows:

1. **High Turnover May Indicate Future Shortages:** A high inventory turnover results when the firm maintains extremely low stocks of goods or raw materials. The low level of finished goods may indicate that the firm will suffer a loss of sales due to an inability to deliver goods promptly. The low level of raw materials could cause shutdowns of the firm's production line, resulting in higher costs.

2. **Low Turnover May Indicate Overstocking of inventory:** A low inventory turnover results from excessive inventory being carried by the firm. The firm may be incurring high costs from overstocking finished goods or raw materials. At the same time, the firm may be carrying obsolete goods in its inventory.

Different firms turn over their inventories at markedly different rates. A firm that has many items at varying stages of production might he expected to have a relatively low turnover. If the inventory contains only a few fast—moving items, a high turnover would he expected. The analyst should remember that high and low turnovers are relative terms. The current turnover must he compared to previous periods or to some industry norms before it is designated as high, low, or normal. The nature of the business should also be considered in analyzing the appropriateness of the size and turnover of the inventory.

Inventory Turnover

Year	2000	2001	2002	2003	2004
COGS	625650933	598523559	537850999	716618425	877528306
Inventory	88172153	122928304	134182686	155228239	192921771
Inventory Turnover	7.096	4.869	4.008	4.617	4.549

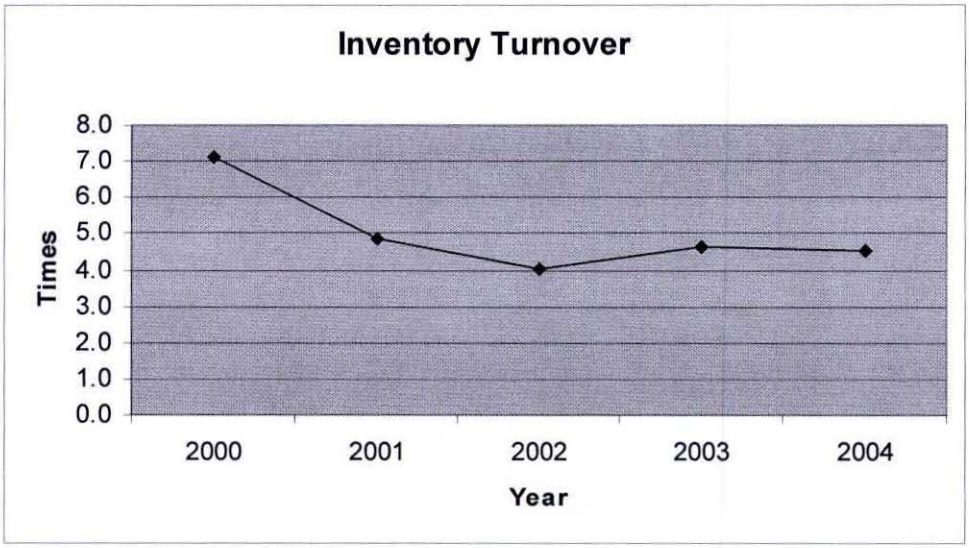

Fig-5: Inventory Turnover

Comments:

From the year 2000 to 2002 the inventory turnover decreased, in 2003 it has increased a little but again in 2004 it decreased. From the analysis it is visible that the inventory turnover of Transcom was not at all consistent. For any company consistency is a very critical issue to achieve the planned target. As Transcom has many items at varying stages of production, it might expect to have a relatively low turnover

8.3.5 Summary of liquidity ratio

Liquadity Ratio	Standard	Actual					Unit
		2000	2001	2002	2003	2004	
Current Ratio	2/1times	0.7954	0.7576	0.6541	0.7549	0.8278	Times
Quick Ratio	1/1 Times	0.6160	0.5257	0.3999	0.4452	0.5085	Times
Recivable Turnover		4.0884	4.4130	6.5188	6.1116	7.3352	Times
Average Collection Period	45 Days	88.055	81.577	55.225	58.904	49.078	Days
Inventory Turnover		7.0958	4.8689	4.0083	4.6165	4.5486	Times

Chart-3: Summary of liquidity ratio

From this overall liquidity analysis, I can conclude that the receivable and inventory ratios shows little change in liquidity, and the current ratio and quick ratio show a possible deterioration. I found from the balance sheet that the major cause of the change seems to be the large increase in accounts payable and short term loan/bank overdraft. The bank over draft increased from 210,394,067 to 297,943,442 in 2004. For covering the previous three years net loss they have to increase this over draft to operate their business and generate money in the working capital. Although increase in inventories, advances, deposits and prepayment accompany the decrease in liquidity

8.4 Profitability Ratios

Basically, there are two major categories of profitability ratios:

1. **Profits in relations to sales:** It is important from a profit standpoint that the firm be able to generate adequate profit on each unit of sales. If sales lack a sufficient margin of profit, it is difficult for the firm to cover its fixed costs and fixed charges on debt and earn a profit for shareholders.

2. **Profits in Relation to Assets:** It is similarly important that profit he compared to the capital invested by owners and creditors. If the firm cannot produce a satisfactory profit on its asset base, it may be misusing the assets.

In addition to these two categories, the analyst links the profit ratios through a ratio of sales to assets. An important factor in the firm's ability in produce profits is the relationship between the level of sales and the level of assets required to attain the sales. The relationships among sales, assets, and profits are examined as profitability ratios.

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Analyzing profitability

Many factors influence a firm's profitability. Each factor in turn affects the profitability ratios. In analyzing a firm's profitability from ratio analysis, I must recognize the interrelationships of factors. Chart 4 identifies factors and shows which ratios help explain other ratios.

In using Chart 2, note the cumulative effect of the individual factors. Every factor affects earning power, even though none leads to it directly. For ex ample, high production costs, which affect gross profit margin; have an effect through the profit margin, return on investment, return on equity, and finally earning power. One ratio explains another because the factors that affect it also affect the others.

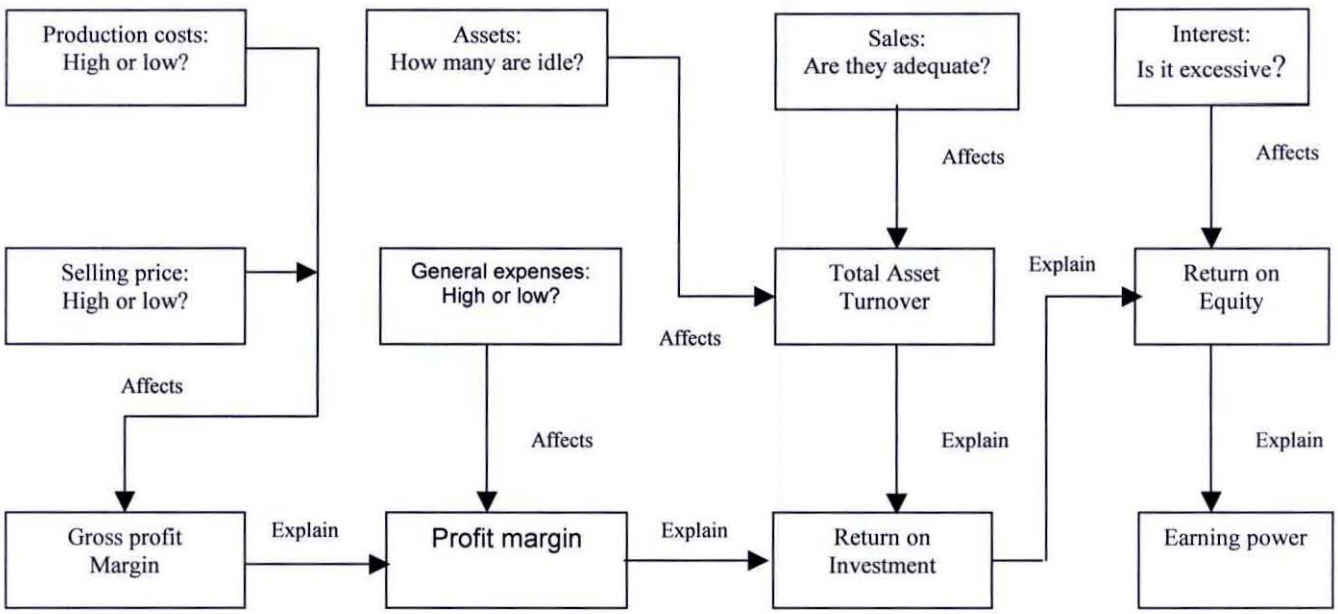


Chart-4: Factors affecting profit and interrelation of profitability ratio

8.4.1 Profit Margin

The firm's profit margin is calculated by dividing operating income by sales:

$$\text{Profit margin} = \frac{\text{Operating income}}{\text{Sales}}$$

Both figures are normally taken from the income statement. The significance of this ratio is that it helps measure the relationship between sales and operating profits. If the profit margin is inadequate, the firm cannot achieve satisfactory return for its investors.

The profit margin is an indicator of the ability of the firm to withstand adverse conditions, which may arise from several sources, such as the following:

1. **Falling Prices:** If the general price level in the marketplace experiences a decline, does the firm have a sufficient margin to drop its price arid still show a profit on individual sales?

2. **Rising Costs:** If the firm is caught in a period of rising costs when it cannot raise its prices, will the firm continue to be profitable?

3. **Declining Sales:** Can the firm withstand unexpected drops in sales and still show a profit?

Similarly, the profit margin may be used as an indicator of possible success under favorable conditions, such as the following:

1. **Rising Prices:** If the firm is able to raise its prices, how quick will profits rise?

2. **Lowered Costs:** If supplies and materials decline in price, what profits can be expected?

3. **Increasing Sales:** If the firm is able to gain large increases in sales without price or cost effects, what would he the profit forecast?

Profit Margin

Year	2000	2001	2002	2003	2004
Net Income	-11279602	-27483812	-45329138	-5249310	8065781
EBIT	11465150	304744	-10969888	19906983	120903439
Sales	744318262	724599157	638078434	844312179	1059603446
Operating Profit Margin	1.54%	0.04%	-1.72%	2.36%	11.41%
Net profit margin	-1.52%	-3.79%	-7.10%	-0.62%	0.76%

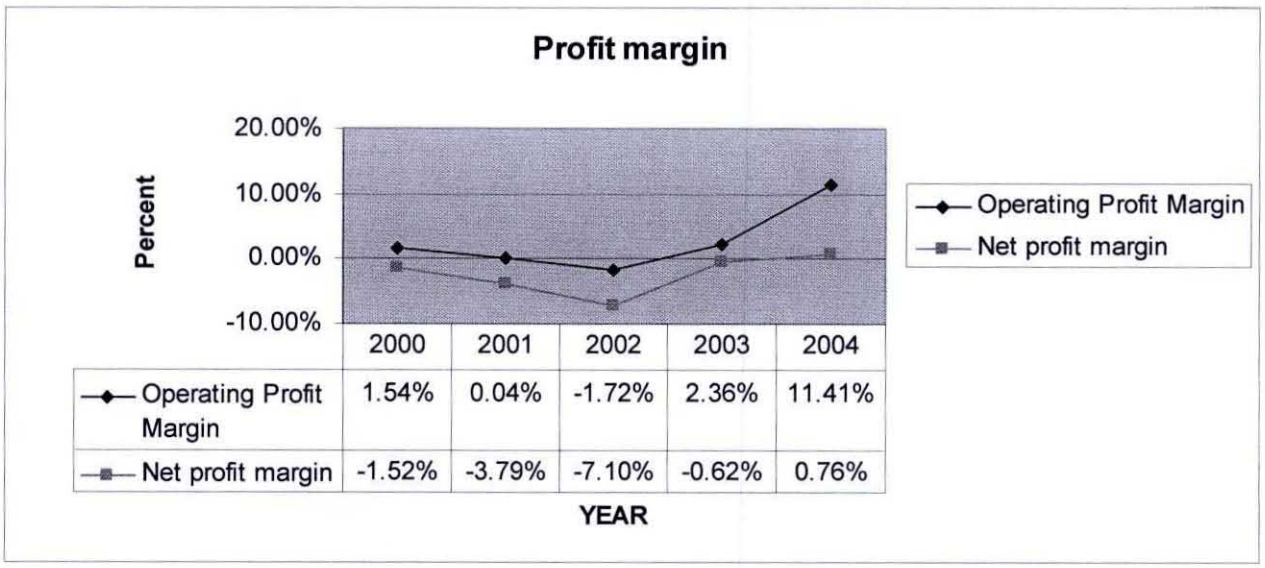


Fig-6: Profit Margin

Comments:

From the above analysis, I found that Trancsom's net profit margin is negative from 2000 to 2003. In 2004 the net margin profit was positive but it was much less than the expected guideline (15% - 25%). On the other hand the operating profit margin was positive till 2001, it was negative in 2002, in 2003-2004 it became positive in an increasing manner, but in a lower rate.

This situation indicates that, the Transcom's sales are much lower against higher cost. According to the debt ratio, Transcom has a greater proportion of debt than the equity. And the time interest ratio shows that Trancom's interest payments on its debt are not covered. As the result the net profit margin is lower than the expected.

8.4.2 Gross Profit Margin

A second ratio that links sales and profits is the gross profit margin, which is calculated by dividing the gross margin by sales. This ratio shows the profits relative to sales after the direct production costs are deducted. It may he used as an indicator of the efficiency of the production operation and the relation between production costs and selling price:

$$\text{Gross profit margin} = \frac{\text{Sales - cost of goods sold}}{\text{Sales}}$$

The difference between profit margin and gross profit margin lies in the general and administrative expenses. These are included in the profit margin thus the profit margin presents a total operations picture. They are excluded from the more narrow profit measure of gross profit margin.

Gross Profit Margin

Year	2000	2001	2002	2003	2004
Gross Profit	118667329	126075598	100227435	127693754	182075140
Sales	744318262	724599157	638078434	844312179	1059603446
Gross Profit Margin	15.94%	17.40%	15.71%	15.12%	17.18%

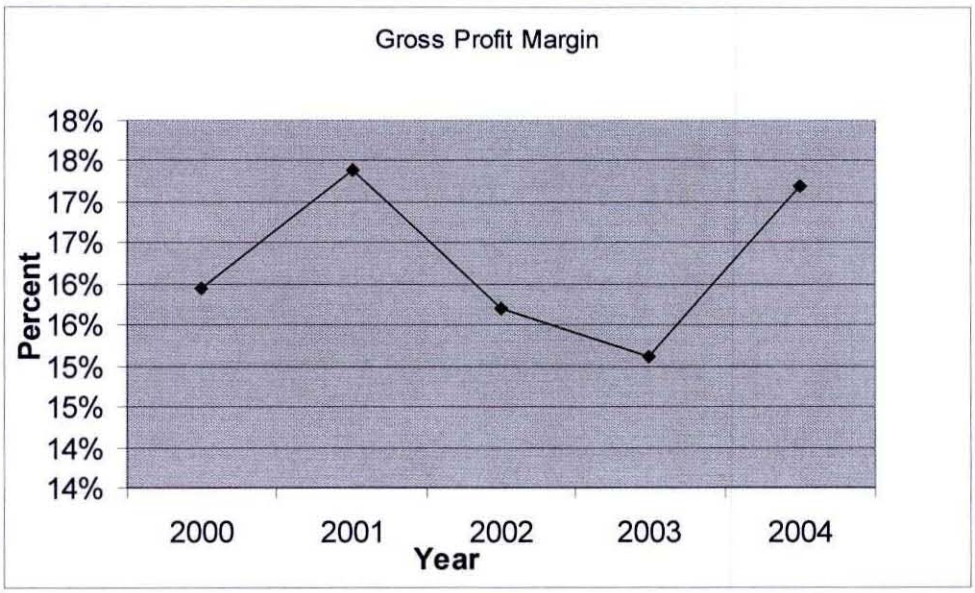


Fig-7: Gross profit margin

Comments:

According to the general guideline a gross profit margin should be between 30% to 50%, but from the above analysis I found that. Transcom's gross profit margin was much lower than its satisfactory level. It indicates that the management of Transcom did not operate production operation efficiently and could not cope up with the increasing production input cost and selling price. Gross profit margin has dropped up to 15.12% in 2003 from 17.4% in 2001. But in 2004 the gross profit margin was increased up to 17.18%. Though this growth is the positive indication for the future, still gross profit margin should increase more

8.4.3 Fixed assets turnover

A key measure of management effectiveness is its ability to effective utilization of the available resources. The fixed assets turnover measure management ability to generate sales given an investment in fixed assets. The ratio is computed as follows:

$$\text{Fixed assets turnover} = \frac{\text{Net sales}}{\text{Fixed assets}}$$

Fixed Assets Turnover

Year	2000	2001	2002	2003	2004
Sales	744318262	724599157	638078434	844312179	1059603446
Net Fixed Assets	312875803	310150222	308546172	300007869	276571003
Fixed Assets Turnover	2.379	2.336	2.068	2.814	3.831

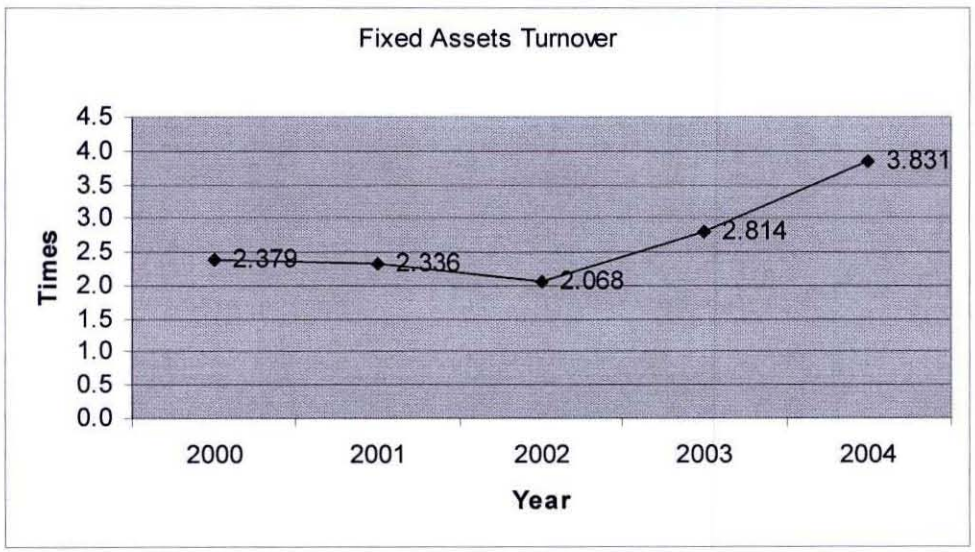


Fig-8: Fixed assets turnover

Comments:

From the above analysis, I found that the fixed assets turnover ratios were downward sloping for the first three years. But the ratio was increased enormously in the year of 2004. It indicates that management of Transcom's became more efficient to manage and utilized the fixed assets effectively to generate profit in the near future. But the Fixed assets turnover is still behind the standard and it needs improvement as soon as possible.

8.4.4 Total Asset Turnover

The asset turnover is calculated by dividing sales by the firm's assets:

$$\text{Asset turnover} = \frac{\text{Sales}}{\text{Total assets}} \quad \text{or} \quad \frac{\text{Sales}}{\text{Operating assets}}$$

It highlights the amount of assets that the firm used to produce its total sales. The ability to produce a large volume of sales on a small asset base is an important part of the firm's profit picture. Idle or improperly used assets increase the firm's need for costly financing and the expenses for maintenance and upkeep. By achieving a high asset turnover, a firm reduces costs and increases the eventual profit to its owners.

In the calculation of asset turnover, assets may be defined three ways:

1. **Total Assets:** The most common usage of assets involves the total assets re ported on the balance sheet. This is basically the book value of current fixed assets. It is the most common asset measure since it is the most readily available, appearing in the firm's annual report.

2. **Operating Assets:** A more accurate measure of the assets used to generate a given volume of sales is the actual operating assets. The analyst might eliminate excess current assets, capital tied up in expansion activities, or other assets not used in the firm's operations in order to produce the reported EBIT. The difficulty in using operating assets is identifying them. If the firm is constructing a $25—million factory, this may be noted in the annual report. Since it is not operating yet, it can be eliminated from the total as sets. But there may be other unused assets, and this may not be known.

3. **Total Assets Plus Estimated Value of Leased Assets:** When a firm leases plant or equipment, it is earning a return on an asset that is not shown or the balance

sheet. When comparing different firms, the approximate value of each firm's assets should be reflected.

As a general rule, external analysis uses total assets, with or without an estimate of the value of leased assets. Internal analysis should use operating assets and should consider the value of leased assets.

Total Assets Turnover

Year	2000	2001	2002	2003	2004
Sales	744318262	724599157	638078434	844312179	1059603446
TA	703737076	711723905	653829323	678359458	776613450
Total Assets Turnover	1.0577	1.0181	0.9759	1.2446	1.3644

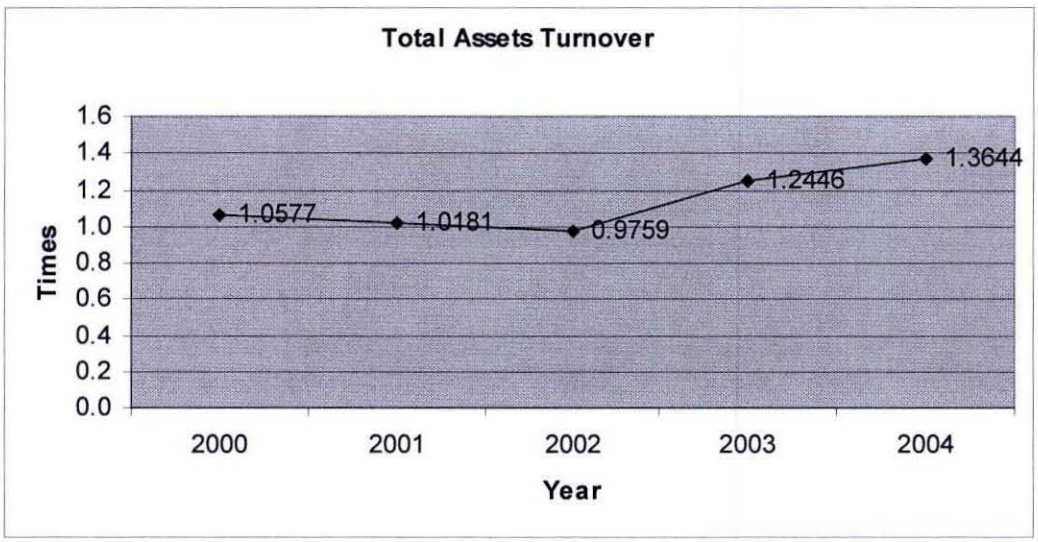


Fig-9: Total Assets Turnover

Comments:

From the above analysis, I found that the total assets turnover ratio was also downward sloping like the fixed assets turnover for the first three years and also the ratio was increased in 2003 and 2004. The total assets turnover ratio was 1.364 times in 2004, which was considered satisfactory for Transcom electronics limited. In this year, they sell a large volume of product and this is an important part of the firm's profit picture. It means, the management was able to reduce costs to achieve this high turnover.

8.4.5 Return on Investment

Individually, the profit margin and the asset turnover have certain weak nesses. The profit margin ignores the money invested by the firm to earn the profit. On the other hand, the asset turnover does not consider the profits made on the use of the assets. To overcome these individual weaknesses, the two ratios may be combined to form a return on investment (ROI)

Return on investment may be calculated in two ways:

1. **EBIT Divided by Assets:** The firm's return on investment is a ratio of its operating income to the assets used to produce the income.

2. **Asset Turnover Times Profit Margin:** The size of a firm's return on investment is a function of the margin of profit on sales and the amount of sales generated on the asset base. A formula for return on investment is:

Profit margin * Asset turnover = Return on investment

EBIT	Sales	EBIT	Return on
-------*	------ =	--------- =	----------
Sales	Assets	Assets	Investment

As illustrated in the formula, when the multiplication is performed the sales in the denominator of the profit margin and the sales in the numerator of the asset turnover cancel out, leaving EB1T/assets. The Dupont chart, so called because it was first used by the DuPont Company, shows the factors producing return on investment (Figure 5-1).

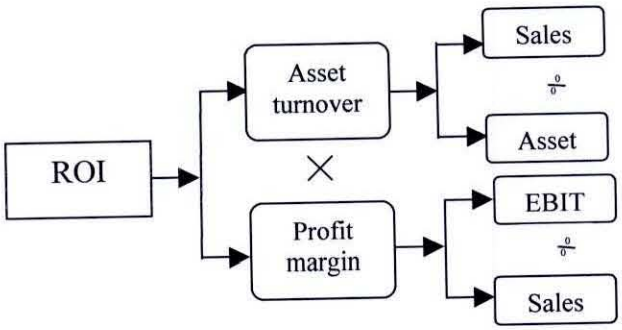


Chart-5: Dupont chart

The return on investment is the key indicator of profitability for a firm. It matches operating profits with the assets available to earn a return. Firms that are efficiently using their assets have a relatively high return. Less efficient firms have a lower return. As we will see, the return on investment is a very important concept in profit planning.

Return on Investment

Year	2000	2001	2002	2003	2004
Profit Margin	0.015404	0.000421	-0.017192	0.023578	0.114103
Total Assets Turnover	1.0576653	1.018090234	0.97591	1.244638	1.36439
Return on Investment	1.63%	0.04%	-1.68%	2.93%	15.57%

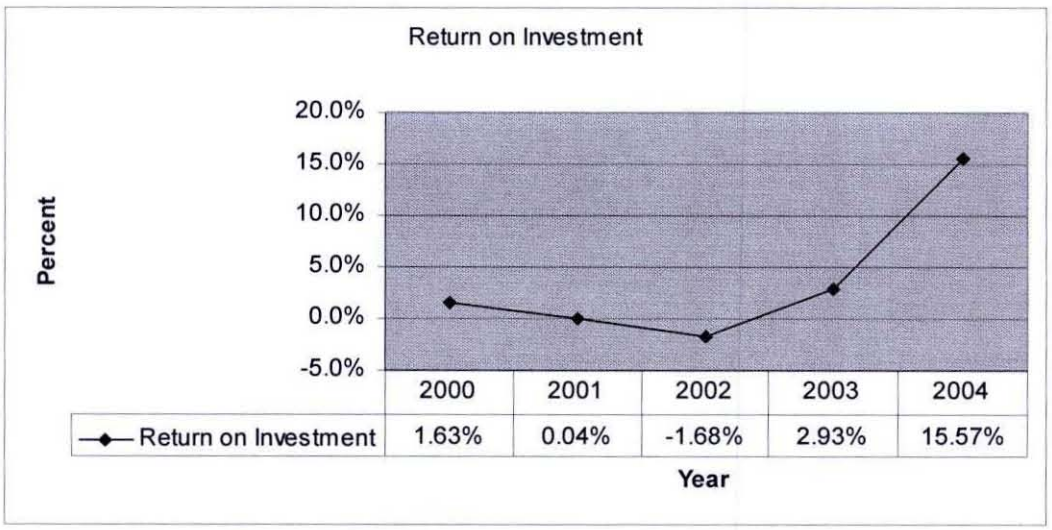


Fig-10: Return on Investment

Comments:

According the general Standard of Transcom, the company should have return on investment between in a range of 25 to 40 percent. But Trnscom's return on investment was not within this range. For the last four years, their return on investment was very low and also negative in 2002. But in 2004, they achieved 15.5% return on investment, which was a positive indicator for the company. It indicates that the firm became more efficient to use its assets properly and have a relative high return.

8.4.6 Return on Equity

The return on equity (ROE) is an important profit indicator to shareholders of the firm. It is calculated by the formula

$$\frac{\text{Net income}}{\text{Total equity}} = \text{Return on equity}$$

This ratio indicates the degree to which the firm is able to convert operating income into an after tax income that eventually can be claimed by shareholders. Stated differently, ROE is used to measure the after tax profits that accrue to the common shareholders since preferred stock dividends, if any, are subtracted before arriving at net income. This is a useful ratio for analyzing the ability of the firm's management to realize an adequate return on the capital invested by the owners of the firm.

Return on Equity

Year	2000	2001	2002	2003	2004
Net Income	-11279602	-27483812	-45329138	-5249310	8065781
Total Equity	182620762	155636950	109857812	104164490	112230271
Return on Equity	-6.18%	-17.66%	-41.26%	-5.04%	7.19%

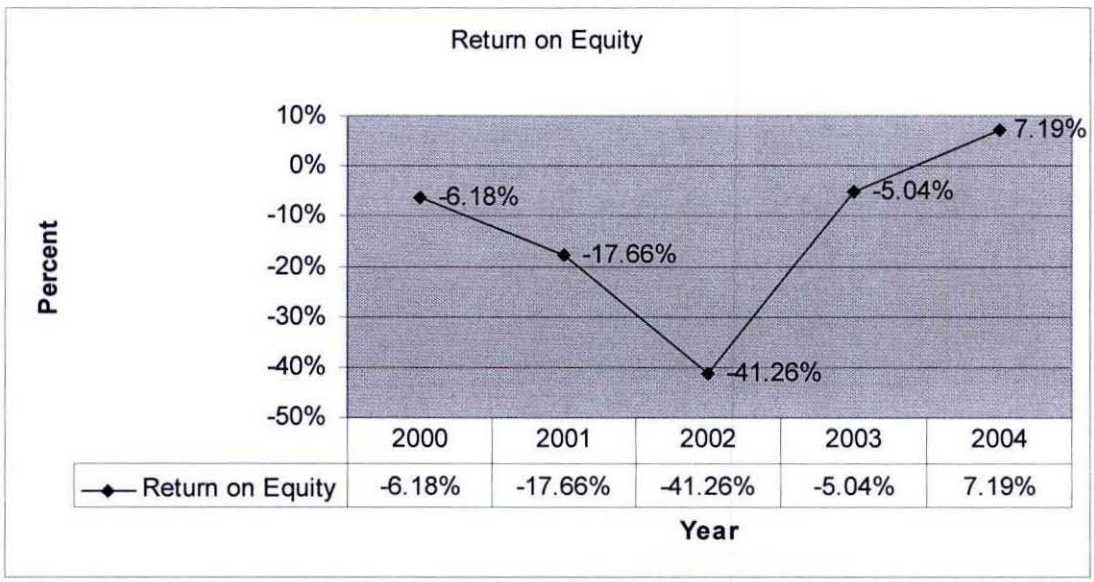


Fig-11: Return on Equity

Comments:

The return on equity is usually lower than the return on investment for a mature industrial firm. As Transcom is in the mature stage in the industrial life cycle, this concept should be true for the company. From the analysis it was found that the ROE has dropped up to –41% in 2002 from –6% in 2000. But in 2004 the ROE increased up to 7%. Though this growth is the positive indication for the future, still ROE should increase more.

8.4.7 Return on Assets

Return on Assets is calculated by dividing net income by total assets

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

It is a measure of the after tax return achieved by the company compared to the firm's re sources. It links after tax profits to the book value of the assets. If a firm is using its assets efficiently, it has a high earning power when compared with similar firms.

Earning power may be viewed as the firm's after-tax return on investment. Many managers use the term return on investment when they are relating net income to assets. For clarity and precision, I use return on investment to mean EBIT/assets and earning power to mean net income/assets.

When others use the term return on investment, the analyst should always ask what the person means.

Return on Assets

Year	2000	2001	2002	2003	2004
Net Income	-11279602	-27483812	-45329138	-5249310	8065781
TA	703737076	711723905	653829323	678359458	776613450
Return on Assets	-1.60%	-3.86%	-6.93%	-0.77%	1.04%

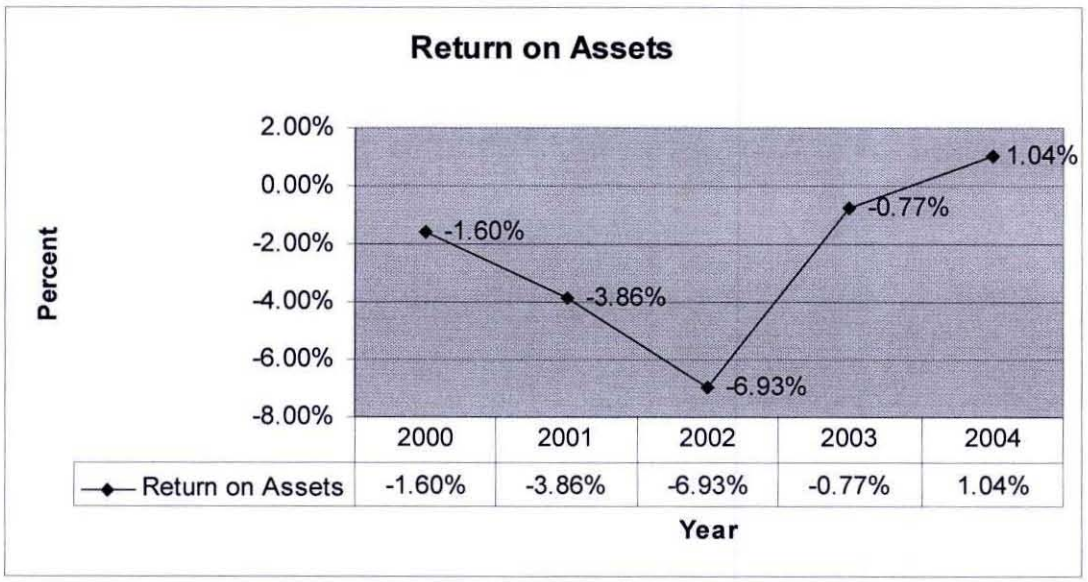


Fig-12: Return on Assets

Comments:

From the above analysis, I found that the earning power of Transcom electronics limited is negative in 2000 to 2003. But it was positive in 2004 with a very low rate (1%), that was far behind from the satisfactory level, 12-16%. It indicates that the management did not use its assets efficiently to get a high earning power or return on assets. Management should be more concern to ensure the proper use of financial and non-financial use of resource to generate profit of the company.

8.4.8 Summary of Profitability Ratio

Profitability Ratio	Standard	Actual					Unit
		2000	2001	2002	2003	2004	
Operating Profit Margin	15-25%	1.54%	0.04%	-1.72%	2.36%	11.41%	Percent
Net Profit Margin	7-9%	-1.52%	-3.79%	-7.10%	-0.62%	0.76%	Percent
Gross Profit Margin	30-50%	15.94%	17.40%	15.71%	15.12%	17.18%	Percent
Fixed Assets Turnover	4-6 Times	2.38	2.34	2.07	2.81	3.83	Times
Total Assets Turnover	1-2 Times	1.0577	1.0181	0.97591	1.244638	1.36439	Times
Return on Investment	25-40%	1.63%	0.04%	-1.68%	2.93%	15.57%	Percent
Return on Equity	70-90% of ROI	-6.18%	-17.66%	-41.26%	-5.04%	7.19%	Percent
Return on Assets	12-16 %	-1.60%	-3.86%	-6.93%	-0.77%	1.04%	Percent

Chart-6: Summary of Profitability Ratio

From this overall profitability analysis, I can conclude that the fixed assets turn over and total assets turnover shows little change in profitability and the management is become more efficient to use its resource. The other ratios are failed to meet the standard. I found from the balance sheet that the major cause of the change seems to be the large decrease in sales, high production cost, high administrative expenses and a combination of these factors. Transcom's High production costs affect gross profit margin; have an effect through the profit margin, return on investment, return on equity, and finally earning power. Because one ratio explains another and the factors that affect it also affect the others.

8.5 Tests of solvency and equity position

Solvency refers to the ability of a company to meet its ling-term obligations on a continuing basis. Test of solvency measure a company's ability to meet these obligations. Analyzing the way that a company has financed its assets and activities can identify certain relationship

There are two type of solvency ratio and those are (1) Time interest earned (2) Debt to equity ratio

8.5.1 Debt management ratio:

The extent to which a firm uses debt financing has three important implications:

1. By rising funds through debt, stockholders ownership is not diluted.
2. Creditors look to the equity, or owner supplied firm, to provide a margin of safety; if the stockholders have provide only a part of total financing, the risks of the enterprise are born mainly by creditors.
3. If the firm more on investments financed with borrowed funds that it pays in interest, the return on the owner's capital magnified, or "leverage".

This debt ratio is calculated by total debt by total assets

$$\text{Debt ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Debt Ratio

Year	2000	2001	2002	2003	2004
Total Debt	521116314	556586955	543971511	574194968	664383179
TA	703737076	711723905	653829323	678359458	776613450
Debt Management Ratio	74.05%	78.20%	83.20%	84.64%	85.55%

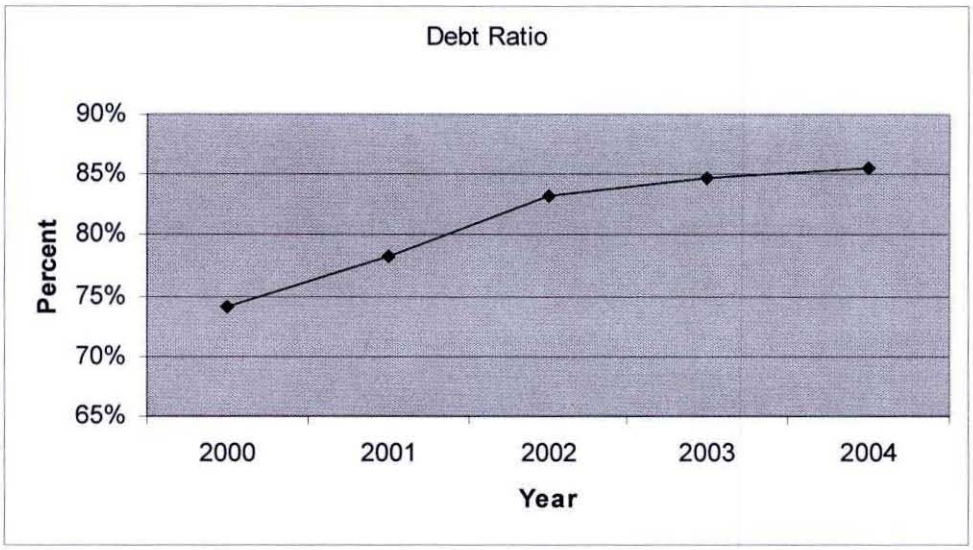


Fig-13: Debt ratio

Comments:

Transcom's debt ratio was 85.6 % in 2004, and it was also more than 73% for the past three years. This means that its creditors have supplied the maximum amount of funds of the firm's total financing. The cost of financing has been increasing each year because the average debt ratio of the firm is 80% and it is still increasing. Transcom might find difficulty to borrow additional debt in future and there might be a chance of bankruptcy in the long run.

8.5.2 Times interest Earned

A useful measure of profit that does not link return to resources is the times interest earned ratio. It is calculated by dividing the firm's operating income by the interest that it must pay on its debt:

$$\text{Times interest earned} = \frac{\text{Operating income}}{\text{Interest}}$$

It relates operating profits to the fixed charges created by the firm's borrowing.

The times interest earned ratio provides an indication of the margin of safety between financial obligations and the net income. A firm may have an operating profit but may face difficulty in making excessive interest payments. If it is confronted by a drop in operating profits, it may be unable to meet its debt obligations. In either case, its net income will decline or vanish. A satisfactory guideline for this ratio is that EBIT should be 5 to 7 times interest charges. Thus, a firm could experience an- 80 to 86 percent drop in EBIT and still cover interest payments

Time Interest Earned

Year	2000	2001	2002	2003	2004
EBIT	11465150	304744	-10969888	19906983	120903439
Interest Charges	24691132	33342876	40113570	50119729	45746078
Time Interest Earned	0.464	0.009	-0.273	0.397	2.643

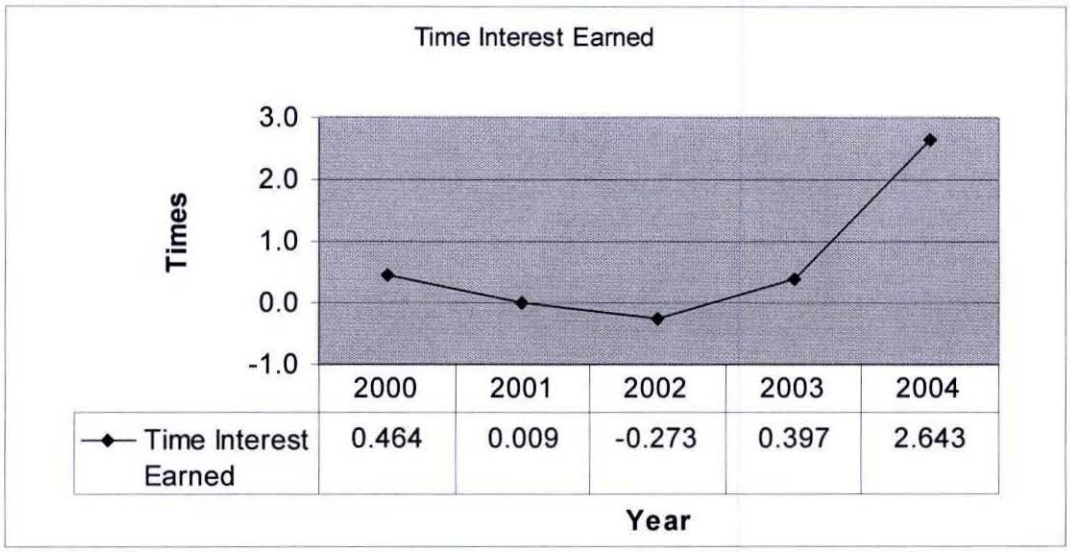


Fig-14: Time interest Earned

Comments:

A standard time interest ratio would be 5 to 7 times for a mature company. From the above analysis, I found that transcom's time interest ratio was less than 1 times in 2000 to 2003 and achieve 2.6 times in 2004. This ratio is the indication of the margin of safety between financial obligations and the net income. But our above analysis indicated that this time interest ratio is not sufficient to cover its fixed charges on debt. Time interest ratio has dropped up to -0.273 times in 2002 from 0.009 times in 2002. But in 2004 the time interest ratio was increased up to 2.6. Though this growth is the positive indication for the future, still time interest ratio should increase more.

8.5.3 Summary Tests of solvency and equity position

Debt Management Ratio	Standard	Actual					Unit
		2000	2001	2002	2003	2004	
Debt Ratio	50-60%	74.05%	78.20%	83.20%	84.64%	85.55%	Percent
Time Interest Earned	5-7 Times	0.4643	0.0091	-0.2735	0.3972	2.6429	Times

Chart-7: Summary Tests of solvency and equity position

From this overall solvency and equity position analysis, I can conclude that the debt management ratio shows very big change in profitability and this ratio has been increasing day by day and very near to 100% of debt. Time interest ratio was also very poor for this high debt ratio and it is very bad impression for the company if they could not pay their long-term obligation or interest.

9.0 Forecasted Future Performance

I have used Trend Analysis to forecast the future financial performance of Transcom Electronics Limited up to the year of 2009.

9.1 Current ratio

Year	2000	2001	2002	2003	2004
CA	390861273	401573683	345283151	378351589	500042447
CL	491389529	530093660	527873635	501183314	604030603
CR	0.79542044	0.75755232	0.65410191	0.75491657	0.827842902

Year	2005	2006	2007	2008	2009
CA	621733305	743424163	865115021	986805879	1108496737
CL	620519485	658597969	696676453	734754937	772833421
CR	1.00195613	1.12879814	1.24177445	1.34304083	1.434328157

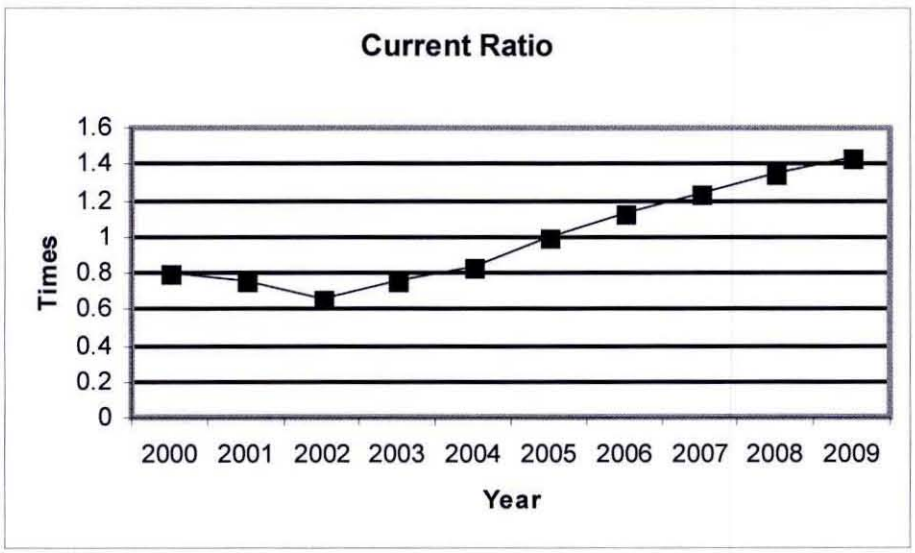


Fig-15: Forecasted current ratio

Comments:

From the above analysis, I found that the current ratio is still bellow than the standard, which is 2/1 times. According to the trend analysis for the time period of 2009, the current ratio would be 13.4/1 times. But this ratio would not be sufficient to meet the short-term obligation and paying bills.

9.2 Quick Ratio

Year	2000	2001	2002	2003	2004
CA-Inventory	302689120	278645379	211100465	223123350	307120676
CL	491389529	530093660	527873635	501183314	604030603
QR	0.6159861	0.5256531	0.3999072	0.44519309	0.508452179

Year	2005	2006	2007	2008	2009
CA-Inventory	410506923	508017864	605528805	703039746	800550687
CL	620519485	658597969	696676453	734754937	772833421
QR	0.66155364	0.7713626	0.86916789	0.95683569	1.035864476

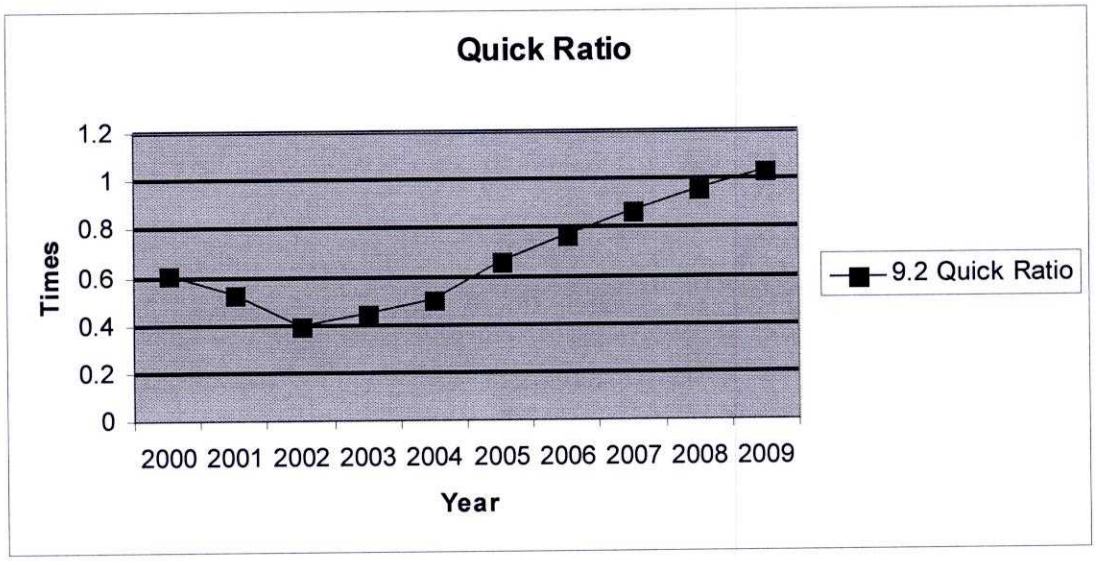


Fig-16: Forecasted Quick Ratio

Comments:

According to the trend analysis up to 2009, at the year of 2009, the company would meet the standard that is 1.04/1. I can conclude that in the future Taranscon will meet the target. Though they would not meet the target current ratio, but for proper inventory management they would able to meet the target quick ratio.

9.3 Average collection period

Year	2000	2001	2002	2003	2004
Recivable	182057319	164196653	97883415	138148813	144454068
Avg. sales per day	2067550.728	2012775.436	1772440.094	2345311.608	2943342.906
Average collection period	88.05458389	81.57723413	55.22523176	58.90424646	49.07823269

Year	2005	2006	2007	2008	2009
Recivable	159702639.4	173596769	186616526.7	198979871.6	210898765.9
Avg. sales per day	3986739.76	5030136.61	6073533.46	7116930.32	8160327.17
Average collection period	46.06722447	43.13917853	41.48035284	40.81965112	40.05882122

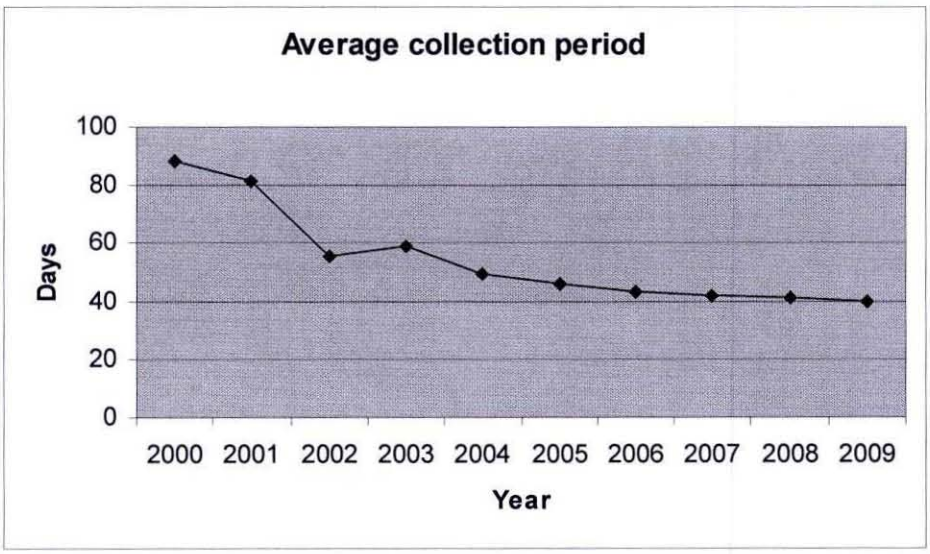


Fig-17: Forecasted Average Collection period

Comments:

According to the forecasted result, the average collection period would be 40 days at the end of 2009. This is the positive indicator for the company. In 2006, the average collection period would come up to 45 days and following this trend it would be 40 days in 2009. This means that if Transcom's management would more efficient and maintain strict policy, they will able to meet the targe

9.4 Inventory Turnover

Year	2000	2001	2002	2003	2004
COGS	625650933	598523559	537850999	716618425	877528306
Inventory	88172153	122928304	134182686	155228239	192921771
Inventory Turnover	7.095788315	4.868883239	4.00834873	4.616546768	4.548622488

Year	2005	2006	2007	2008	2009
COGS	1222429832	1567331357	1912232883	2257134409	2602035934
Inventory	245516650.3	298111529.7	350706409	403301288.3	455896167.7
Inventory Turnover	4.979009896	5.257533511	5.45251764	5.596645669	5.70751877

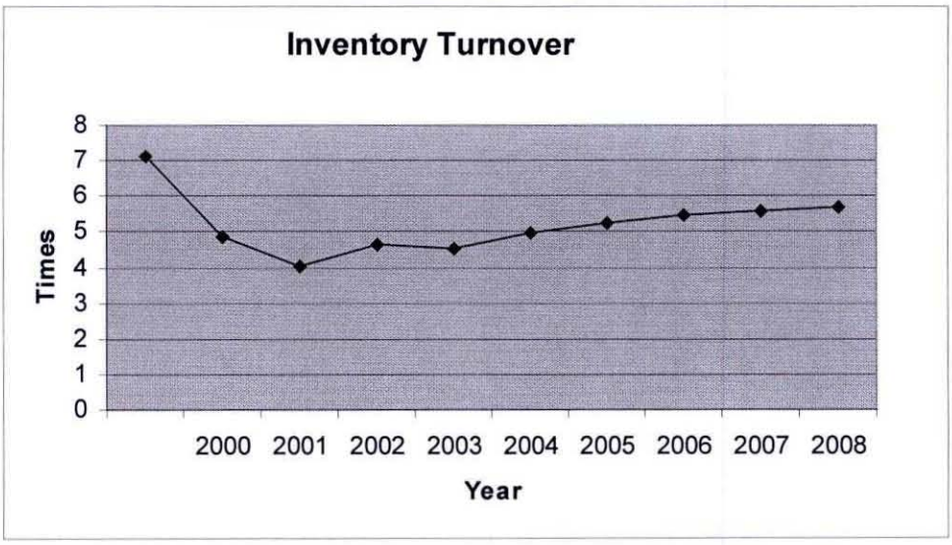


Fig-18: Forecasted Inventory turnover

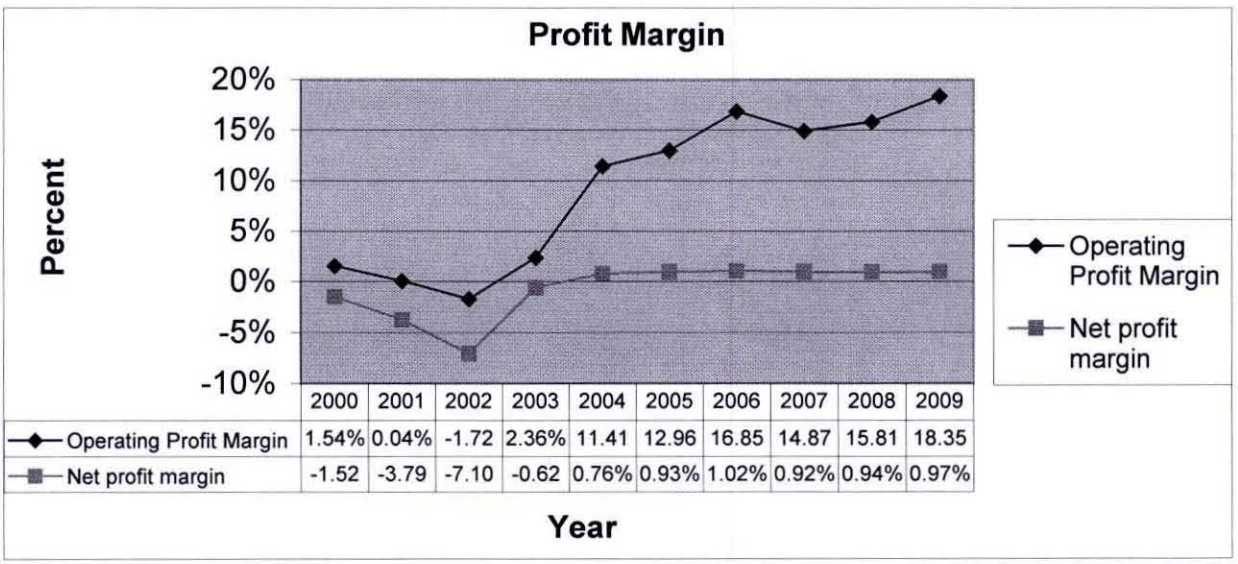
Comments:

According to the forecasted result, the inventory turnover would be 5.7 times at the end of 2009. This is the positive indicator for the company. In 2006 to 2009, the inventory turnover would be more consistence and stable. It indicates that Transcom's management will be more efficient to manage its inventory in order to improve working capital management.

9.5 Profit margin

Year	2000	2001	2002	2003	2004
Net Income	-11279602	-27483812	-45329138	-5249310	8065781
EBIT	11465150	304744	-10969888	19906983	120903439
Sales	744318262	724599157	638078434	844312179	1059603446
Operating Profit Margin	1.54%	0.04%	-1.72%	2.36%	11.41%
Net profit margin	-1.52%	-3.79%	-7.10%	-0.62%	0.76%

Year	2005	2006	2007	2008	2009
Net Income	13380872	18514891	20107417.8	24099944.6	28392471.4
EBIT	185993782.9	305153505	325153505	405090168.5	539026832
Sales	1435226313	1810849180	2186472047	2562094914	2937717781
Operating Profit Margin	12.96%	16.85%	14.87%	15.81%	18.35%
Net profit margin	0.93%	1.02%	0.92%	0.94%	0.97%



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Operating Profit Margin	1.54%	0.04%	-1.72	2.36%	11.41	12.96	16.85	14.87	15.81	18.35
Net profit margin	-1.52	-3.79	-7.10	-0.62	0.76%	0.93%	1.02%	0.92%	0.94%	0.97%

Fig-19: Forecasted Profit Margin

Comments:

According to the trend analysis up to 2009, the operating profit will increase up to 18.35% it was much less than the expected guideline (15% - 25%). The net profit would below 1% in 2009. This situation indicates that, the Transcom's sales would be too low but the cost will be too high. According to the debt ratio, Transcom will have a greater proportion of debt than the equity. And the time interest ratio shows that Trancom's interest payments on its debt will not be covered. As a result of that net profit margin is that much low.

9.6 Total Assets Turnover

Year	2000	2001	2002	2003	2004
Sales	744318262	724599157	638078434	844312179	1059603446
TA	703737076	711723905	653829323	678359458	776613450
Total Assets Turnover	1.0577	1.0181	0.9759	1.2446	1.3644

Year	2005	2006	2007	2008	2009
Sales	1435226313	1810849180	2186472047	2562094914	2937717781
TA	961392793	1144848746	1356171425	1559505891	1668267645
Total Assets Turnover	1.4929	1.5817	1.6122	1.6429	1.7609

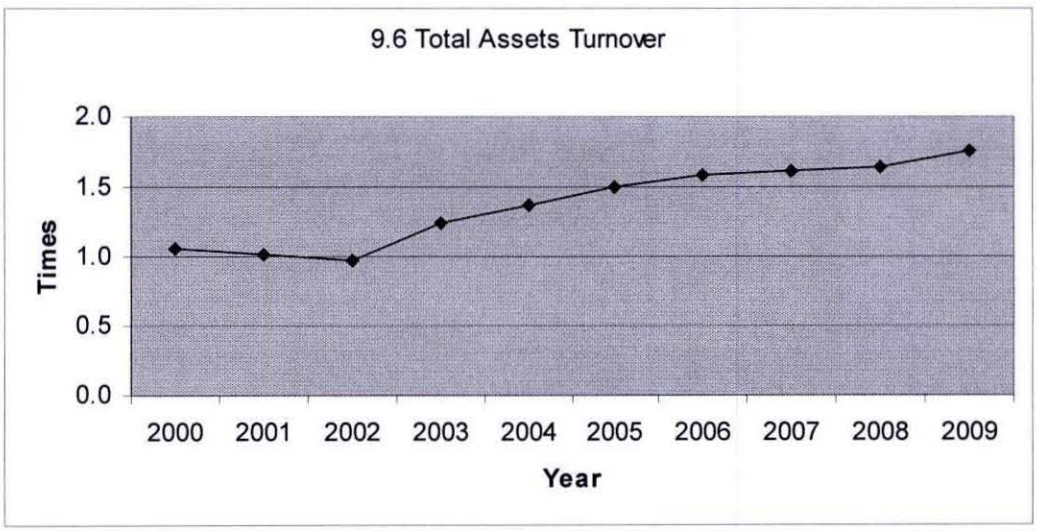


Fig-20: Forecasted Total assets Turnover

Comments:

From the trend analysis, we can see that the total assets turnover ratio will increase up to 1.76 for 2005 to 2009, which will be considered satisfactory for Transcom electronics limited. To reach up to this level, they would have to sell a large volume of product and this will be an important part of the firm's profit picture.

9.7 Return on Investment

Year	2000	2001	2002	2003	2004
Profit Margin	1.54%	0.04%	-1.72%	2.36%	11.41%
Total Assets Turnover	1.05767	1.01809	0.97591	1.24464	1.36439
Return on Investment	1.63%	0.04%	-1.68%	2.93%	15.57%

Year	2005	2006	2007	2008	2009
Profit Margin	12.96%	16.85%	14.87%	15.81%	18.35%
Total Assets Turnover	1.49286	1.58174	1.61224	1.64289	1.76094
Return on Investment	19.35%	26.65%	21.58%	20.78%	25.85%

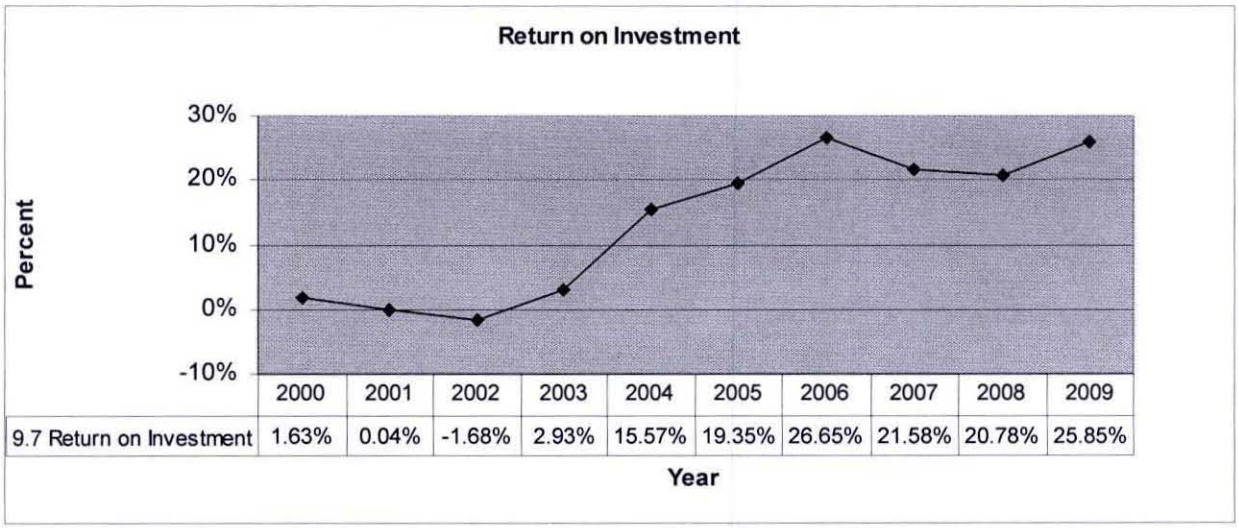


Fig-21: Forecasted Return on Investment

Comments:

According to the general Standard of Transcom, the company should have return on investment in a range of 25 to 40 percent. From the trend analysis, we can see that Trnscom's will get this return on investment in 2009, which would be 25.85%. It indicates that the firm is become efficient to use its assets and have a relative high return.

9.8 Return on Equity

Year	2000	2001	2002	2003	2004
Net Income	-11279602	-27483812	-45329138	-5249310	8065781
Total Equity	182620762	155636950	109857812	104164490	112230271
Return on Equity	-6.177%	-17.659%	-41.262%	-5.039%	7.187%

Year	2005	2006	2007	2008	2009
Net Income	13380872	18514891	20107417.8	24099944.6	28392471.4
Total Equity	120296052	128361833	136427614	144493395	152559176
Return on Equity	11.123%	14.424%	14.739%	16.679%	18.611%
Standard (70-90% of ROI)	13.54%	18.66%	15.10%	14.55%	18.09%

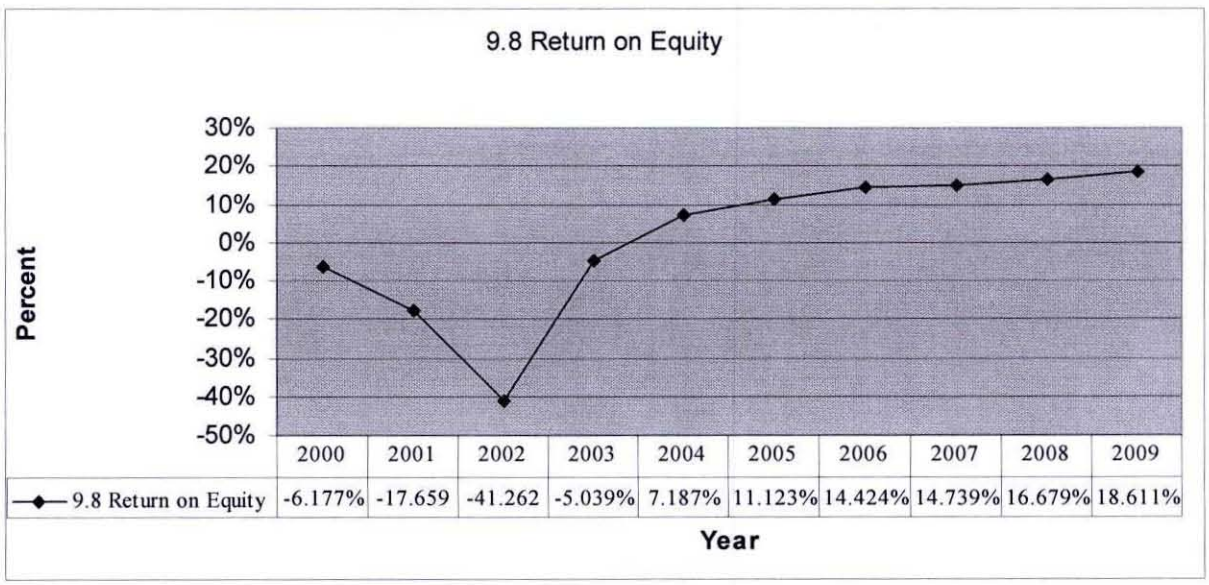


Fig- 22: Forecasted Return on Equity

Comments:

The return on equity is usually 70-90% of the return on investment for a mature industrial firm. As Transcom is in the mature stage in the industrial life cycle, this concept should be true for the company. From the trend analysis, it is found that the ROE would increase up to 18.611, which meet the minimum standard of ROE. At 2007 they would start to meet the expected return on equity and in 2009 the expected ROE would be 18.61%s

9.9 Debt Management Ratio

Year	2000	2001	2002	2003	2004
Total Debt	521116314	556586955	543971511	574194968	664383179
TA	703737076	711723905	653829323	678359458	776613450
Debt Management Ratio	0.7405	0.7820	0.8320	0.8464	0.8555

Year	2005	2006	2007	2008	2009
Total Debt	754571390	844759601	934947812	1025136023	1115324234
TA	874867442	973121434	1071375426	1169629418	1267883410
Debt Management Ratio	0.8625	0.8681	0.8727	0.8765	0.8797

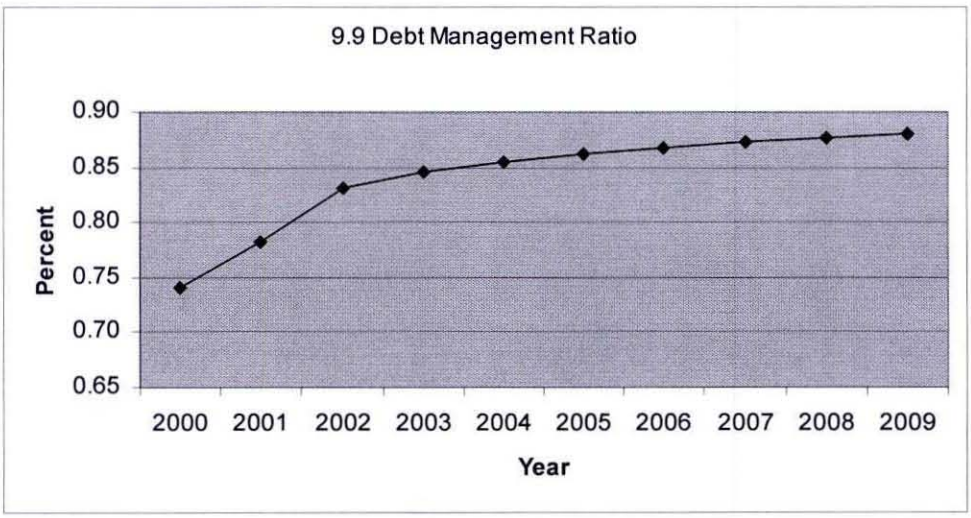


Fig – 23: Forecasted Debt Management Ratio

Comments:

According to the forecasted result the debt management ratio of the company would be 87.97% in 2009 from 85.55% in 2004. For this growing debt management ratio, the working capital still shows the negative figure. The company has to be concerned about this alarming situation and promptly try to get reed of this circumstances.

10.0 Conclusion & Recommendations

After concluding my analysis part of the project paper, a can conclude that the overall performance of the Transcom Electronics limited is not at all satisfactory. They should be concern about the alarming situation. If the company wants to see their vision in practically, they have to work hard. I have some suggestions, which I think if they follow it will help them to overcome.

Symptoms	Problem	Solution
Abnormal Liquidity Ratio	1. Inadequate Cash	1. Transcom has to raise its additional funds through equity capital. The company cannot raise additional capital through bank financing. Because they have already under huge amount of debt. The amount of the debt is almost 85% for every single assets
	2. Excessive receivable	2. Transcom have to put more restriction on the terms of trade and develop a more aggressive collection policy. So that they can reduce the amount of receivables. Excessive receivable does not give positive impressions on the company. The company should b more careful about this matter.
	3. Excessive inventory	3. They should improve their inventory management system in order to improve the working capital management. Their inventory turnover is satisfactory but there was no consistency
	4. Excessive Current liability	4. Their current liability is 10 times higher than their long-term liabilities. And this excessive current liability affects its current ratio and quick ratio negatively to pay its short-term obligation.

Symptoms	Problem	Solution
Abnormal Profitably Ratio	5. High production cost	5. Transcom should develop institute cost-cutting measure because their production input cost is very high
	6. Inadequate Sales	6. Transcom has to increase the size and quality of sales force and improve advertising for increasing their sales
	7. High Administrative cost	7. They should reduce their administrative cost to gain high operating profit.
	8. Excessive interest payments.	8. For lowering these high interest payments they should seek lower-cost debt financing or seek equity financing.

Appendix

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