

Report On
**Financial Performance Analysis of RAK Ceramics
Bangladesh Limited**

By

Rumana Islam Ridita
Student ID- 18264062

An internship report submitted to the Graduate School of Management in partial
fulfillment of the requirements for the degree of
Master of Business Administration

Graduate School of Management
BRAC University
October 2021

© 2021. BRAC University
All rights reserved.

Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

Student's Full Name & Signature:



Rumana Islam Ridita
Student ID -18264062

Supervisor's Full Name & Signature:

Meer Sajed-Ul-Basher
Adjunct Professor, Graduate School of Management
BRAC University

Letter of Transmittal

Meer Sajed-Ul-Basher

Adjunct Professor,

Graduate School of Management

BRAC University

66 Mohakhali, Dhaka-1212

**Subject: Submission of research report on Financial Performance Analysis of RAK
Ceramics Bangladesh Limited.**

Dear Sir,

It is an immense pleasure for me to submit the research report on “Financial Performance Analysis of RAK Ceramics Bangladesh” as the internship. Working on the report has been a fantastic experience for me because it has helped me to learn and understand comparative study of financial ratio analysis and relate practical and theoretical knowledge. I have tried my level best to prepare an effective report.

I am grateful for your direction and encouragement, which has inspired me to work with zeal. Please accept my sincere gratitude for allowing me to complete a research paper that I would not have been able to accomplish without your assistance. If you found my study work to be useful and informative, it would be a great honor for me.

Sincerely yours,

Rumana Islam Ridita

Student ID - 18264062

Graduate School of Management

BRAC University

Date: October 3, 2021

Acknowledgement

All the praise and admiration go to Allah, the Almighty, the most gracious and benevolent and merciful, who gives me the energy and sound health to endure the rigor of this tedious job.

I would like to express my profound sense of gratitude and indebtedness to my respected Supervisor Meer Sajed-UI-Basher, Adjunct Professor, Graduate School of Management, and (BRAC University) whose encouragement, guidance, constructive criticism and support from the very initial to the final level of the study enabled me to develop it. This study definitely would not have been possible unless his believing in me. Last but not least, I am grateful to Brac University for granting me with this opportunity.

Executive Summary

Financial Performance Analysis is a technique of evaluating and studying a company's financial condition to determine its past, existing, and predicted future performance. Moreover, by thoroughly comprehend the company's financial status it helps to find the best way to improve it.

RAK Ceramics (Bangladesh) Limited, a joint venture with UAE company, is the biggest and most notable tile and sterile product organization in Bangladesh. Therefore, it has established a superb operational benchmark throughout years of concentrated investments and the development of unique operational knowledge. This research paper is based on the financial performance analysis of RAK ceramics Bangladesh. The 2nd chapter of this research paper emphasizes an overview of the company including RAK's management, marketing practice, operational system, etc. The last part of 2nd chapter is about a short discussion on comparative advantage that indicates the strengths, weaknesses, opportunities, and threats of RAK Ceramic with some general recommendations. The 3rd chapter is based on financial performance analysis and for that examination, trend/horizontal analysis, vertical analysis, and ratio analysis, discount cash flow model has been applied. This study is centered on a 5-year time frame, from 2016 to 2020. The ratio analysis part has been divided into four parts- liquidity and solvency, assets management, profitability, and investment valuation to have a clear view of the total performance of RAK.

After examining the performance with three metrics, the overall financial performance of RAK Ceramics Bangladesh from 2016 to 2020 was judged to be less than satisfactory.

Keywords: Ceramics industry; RAK Ceramics; Vertical and Trend analysis; Ratio analysis

Table of Contents

| | |
|---|------------|
| Declaration..... | ii |
| Letter of Transmittal | iii |
| Acknowledgement | iv |
| Executive Summary | v |
| Table of Contents | vi |
| List of Tables | ix |
| List of Graphs..... | x |
| List of Acronyms | xi |
| Glossary | xii |
| Chapter 1 Overview of the internship/ Research Report..... | 1 |
| 1.1. Student’s Information..... | 1 |
| 1.2. Difficulties..... | 1 |
| Chapter 2 Overview of the Company..... | 2 |
| 2.0.Introduction..... | 2 |
| 2.1.Overview of the Company..... | 2 |
| 2.1.1.Vision of RAK Ceramics Bangladesh Ltd..... | 3 |
| 2.1.2.Mission_of RAK Ceramics Bangladesh Ltd..... | 3 |
| 2.1.3.Goal Of RAK Ceramic Bangladesh Ltd..... | 3 |
| 2.1.4. Core Value and Code of Conduct..... | 3 |
| 2.1.5. Award achievement & Recognition..... | 4 |

| | |
|---|----|
| 2.2. Management Practices | 5 |
| 2.2.2. Structure of the Board..... | 6 |
| 2.2.2. Board Procedure..... | 6 |
| 2.2.3. Audit Committee..... | 7 |
| 2.2.4. Human Resource Management..... | 7 |
| 2.2.5. Subsidiary..... | 7 |
| 2.3. Marketing Practices | 8 |
| 2.4. Financial Performance & Accounting Practices | 9 |
| 2.5. Operations Management and Information System Practices | 9 |
| 2.6. Industry and Competitive Analysis | 10 |
| 2.6.1. Overview of Ceramic Industry of Bangladesh..... | 10 |
| 2.6.2. Competitive Analysis..... | 11 |
| 2.6.2.1. SWOT Analysis..... | 12 |
| 2.7. Summary and Conclusion | 13 |
| 2.8. Recommendations | 13 |
| Chapter 3 Financial performance of RAK Ceramics Bangladesh limited | 14 |
| 3.1 Introduction | 14 |
| 3.1.1. Objectives..... | 14 |
| 3.2 Methodology | 14 |
| 3.2.1. Limitation of the study..... | 15 |

| | |
|--|-----------|
| 3.3.Literature Review..... | 15 |
| 3.3.1. Financial Statement Analysis..... | 15 |
| 3.3.2. Horizontal/ Trend Analysis..... | 15 |
| 3.3.3 Vertical Analysis..... | 15 |
| 3.3.4. Financial Ratio analysis..... | 16 |
| 3.4. Analysis and Findings..... | 21 |
| 3.4.1. Trend/horizontal Analysis..... | 23 |
| 3.4.2. Vertical Analysis..... | 25 |
| 3.4.3. Ratio Analysis of RAK Ceramics..... | 28 |
| 3.4.3.1.Profitability of RAK Ceramics..... | 29 |
| 3.4.3.2. Liquidity & Solvency of RAK Ceramics..... | 29 |
| 3.4.3.3. Asset Management of RAK Ceramics..... | 32 |
| 3.4.3.4. Investment Valuation of RAK Ceramics..... | 34 |
| 3.4.3.5. Discount Cash Flow Method..... | 38 |
| 3.4.4. Findings..... | 40 |
| 3.5.Conclusion..... | 41 |
| 3.6. Recommendations..... | 42 |
| References..... | 43 |

List of Tables

Table 1: Award achievement & Recognition of RAK Ceramics Bangladesh

Table 2: Management of RAK Ceramics

Table 3: Financial scenario of ceramics companies in Bangladesh

Table 4: Important formula for Ratio analysis

Table 5 : Balance sheet of RAK Ceramic Bangladesh (Year 2016 – Year 2020)

Table 6: Income Statement of RAK Ceramic Bangladesh (Year 2016 – Year 2020)

Table 7: Trend/ Horizontal Analysis of Balance Sheet

Table 8: Trend / Horizontal Analysis of Income Statement

Table 9: Vertical analysis of Balance Sheet

Table 10: Vertical analysis of Income Statement

Table 11: Ration Metrics of RAK Ceramics

List of Graphs

Graph 1: Profitability Ratio

Graph 2: Current Ratio and Quick Ratio

Graph 3: Debt to Equity Ratio

Graph 4: Cash Conversion cycle

Graph 5: Inventory Turnover Ration

Graph 6: Days Sales Outstanding

Graph 7: Asset Turnover Ratio

Graph 8: Return on Investment

Graph 9 : Dividend Payout and Earning Per share

Graph 10 : Net Asset Value per Share

Graph 11: Market Capitalization

Graph12: Price to Earnings Ratio

Graph 13 : Price to Sales Ratio

List of Acronyms

| | |
|-------|--|
| RAK | Ras Al Khaimah |
| ICAB | Institute of Chartered Accountants of Bangladesh |
| ICSB | The International Council for Small Business |
| ICMAB | Institute of Cost and Management Accountants of Bangladesh |
| SWOT | Strengths-Weaknesses-Opportunities-Threats |
| CR | Current Ratio |
| QR | Quick Ratio |
| D/E | Debt to equity ratio |
| CCC | Cash Conversion Cycle |
| GPM | Gross Profit Margin |
| OPM | Operational Profit Margin |
| ROA | Return on Total Asset |
| ROE | Return on Total Equity |
| ROIC | Return on Invested Capital |
| EPS | Earnings Per Share |
| NAVPA | Net Asset Value Per Share |
| RRR | Return Rate of Return |

Glossary

| | |
|-------------------------|--|
| Luminous | Light that is emitted or reflected; |
| Cutting-edge technology | Instruments, processes, or accomplishments that make use of the most recent and advanced IT breakthroughs. |
| PetWise-Marketing | A technology firm that creates veterinary practice management software with the goal of providing solutions. |

Chapter 1

Overview of the Internship / Research Report

1.1. Student's Information

The following research report, “Financial Performance Analysis of RAK Ceramics Bangladesh Limited” has been prepared by Rumana Islam Ridita (ID 18264062), a student of MBA program of BRAC University, who has a major on Finance and HRM. This report is a compulsory part of the internship program for BRAC University's Master of Business Administration degree.

1.2. Difficulties

The report is written in a very thorough and well-organized manner. However, due to some constraints, there may be some information gaps. As there was not scope to learn about the company's culture due to unable to pay a visit to a RAK ceramics Bangladesh, as employee, the practical experience/ data was not included in this report. Moreover, the website and other sources have a scarcity of articles and information. Therefore they do not divulge their secret data and keep their operations information hidden from the public eye. This became the obstacle to write this report professionally.

Chapter 2

Organization Part

2. Introduction

Bangladesh's ceramics industry is a growing manufacturing industry. The industry has grown tremendously throughout the years. While it meets 85% of domestic consumption, it also exports high-quality ceramic items to foreign marketplaces.

2.1. Overview of the company

The UAE and Bangladesh have partnered to form R.A.K. Ceramics Bangladesh Pvt. Ltd. Ras Al Khaimah (R.A.K.) Ceramics, UAE, its parent company, was founded in 1989 and has quickly established itself as one of the world's largest manufacturers of high-quality ceramic building insulation tiles and sanitary wares, exporting to over 125 countries worldwide, including Europe, America, and Australia (Alam, 2007).

RAK Ceramics (Bangladesh) Limited is the biggest and most notable tile and sterile product organization in Bangladesh (Report, 2020). Its businesses are incorporated from designing through manufacture and supply- this includes operational efficiencies, product innovation, and industry-leading services that benefit both their customers and other stakeholders (*Overview / RAK Ceramics*, n.d.). On November 26, 1998, the organization was incorporated as a private limited company in Bangladesh. On November 12, 2000, it began producing goods. The date was June 13, 2010. On June 10, 2008, it became a public limited company and was listed on the Bangladesh stock exchanges (Company et al., 2010). In the ceramic and porcelain tile sector, the company has over 2000 active model and introduces many new designs to the product line (Company et al., 2010) .

RAK Ceramics (Bangladesh) Ltd. is a multinational company in the ceramic sector with a market capitalization of BDT 4009 million. They have always sought to generate the ideal atmosphere in our lives through a precise balance of technical skill and elegance, generating thousands of designs in Ceramic Tiles, as well as many patterns in Sanitary Ware. The company has first introduced the world's first Luminous- a wonder tile that glows in the dark,

and the Antimicrobial - which is a super specialty tile for the hospitality industry (Akter, 2015).

In a challenging and crisis-ridden 2020 marked by the COVID-19 pandemic and a weak macroeconomic climate, the Company generated revenue of BDT 5,288.92 million, gross profit of BDT 1,189.80 million, and net profit of BDT 310.65 million (Company, n.d.).

2.1.1. Vision of RAK Ceramics Bangladesh Ltd.

“Our Vision is to be the world’s leading ceramics lifestyle solutions provider.”¹

2.1.2. Mission of RAK Ceramics Bangladesh Ltd.

“Our mission is to foster an internal culture that we are committed to our vision of becoming the world’s leading ceramics lifestyle solutions provider and we will achieve this by utilizing our experience, our wide product range, our innovative approach and continuing to deliver quality. We want to build a world class organization. We have applied our expertise in some of the most iconic and innovative projects around the world and we aim to continue to push the boundaries in new and exciting projects as we move forwards.”²

2.1.3. Goal of RAK Ceramics Bangladesh Ltd.

“Excellence” in the application of cutting-edge technology to develop the most cutting-edge goods and designs.

2.1.4. Core Value and Code of Conduct

RAK’s ideals have been thoroughly ingrained in the culture to guarantee that the employees operate consistently and make the best judgments possible in line with their overall operating philosophy. As a responsible corporate citizen, RAK Ceramics (Bangladesh) has adopted a transparent policy to adhere to interaction and sharing of data in a fair, conscientious, and visible way, as permitted by legal requirements. The goal of this company policy is to build and maintain honest, long-term, and jointly profitable relationships with clients and other stakeholders. The Company's Board of Directors is accountable and committed to following solid corporate governance methodologies.

¹ Annual Report 2020

² Annual Report 2019

2.1.5. Award achievement & Recognition

RAK Ceramic Bangladesh emphasizes the importance of operating with a cautious balance between the creation of economic, social, and environmental value in order to ensure corporate progress without jeopardizing future generations. This dedication has been recognized numerous times, with the Company receiving numerous major national and international accolades.

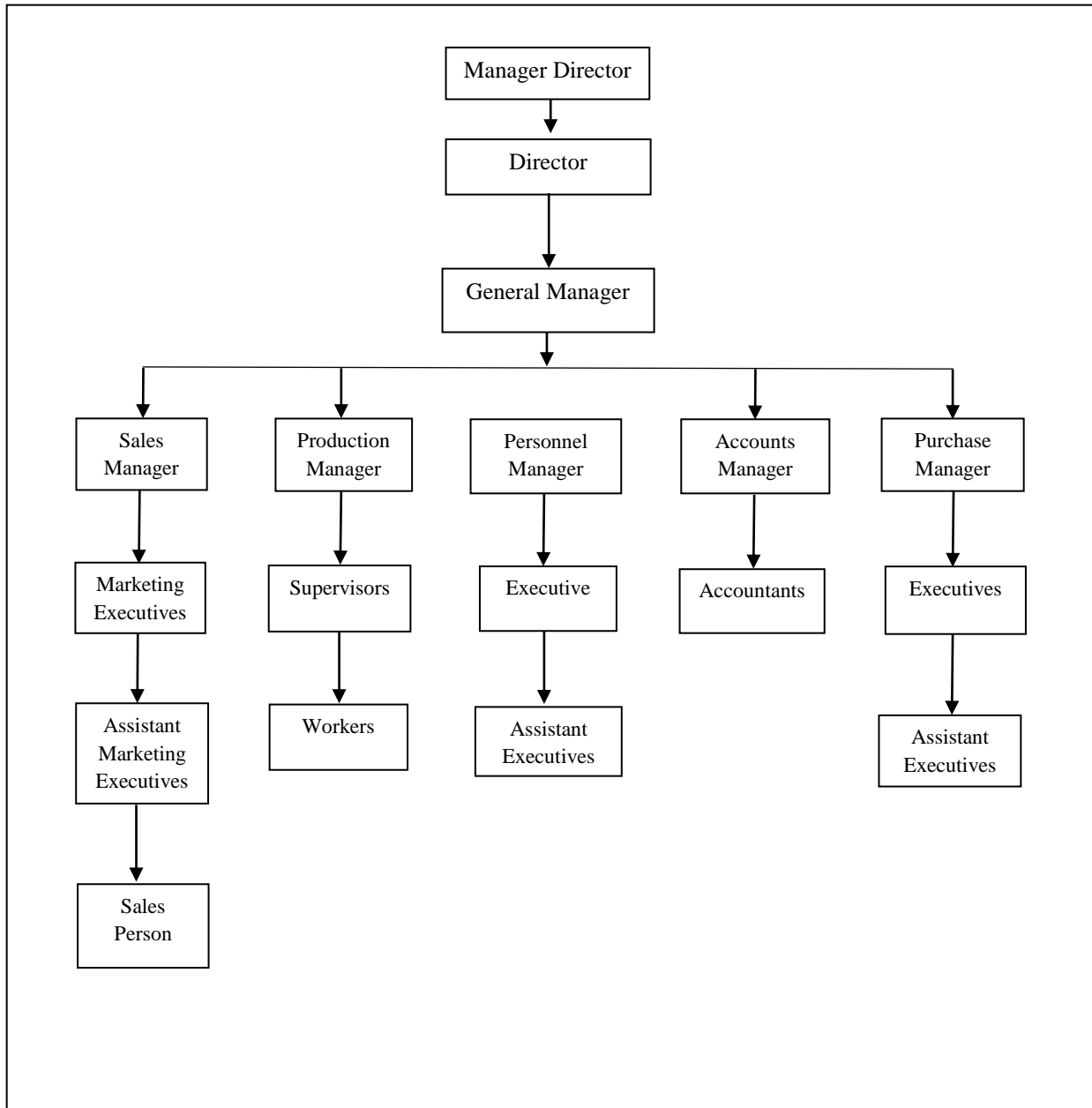
| | |
|-------------------|---|
| Gold Award | 7 th ICSB National Award 2019 for corporate governance excellence. |
| Silver Award | ICMAB Best Corporate Award 2019. |
| Silver Award | In the Manufacturing Companies area at 6th ICSB National Award in the year 2019. |
| 3rd Position | In the Miscellaneous Manufacturing section at ICMAB Best Corporate Award 2018. |
| Silver Award | International Business Stevie Awards in 2015 for most innovative company. |
| Bronze Award | International Business Stevie Awards in 2015 for health, safety and environment programme of the year. |
| Brand of the year | At the prestigious World Branding Awards 2015. |
| ICAB Award | The Institute of Chartered Accountants of Bangladesh awarded RAK Ceramics Bangladesh Limited first prize in the “16th, 13th, 12th, and 11th ICAB National Awards” for best produced Annual Reports during the years in the manufacturing area (ICAB). |
| Safa Award | The certificate of Merit in manufacturing area at The South Asian Federation of Accountants in the place of presenting annual report of 2012, 2011 and 2010. |

Table 1: Award achievement & Recognition of RAK Ceramics Bangladesh³

³ RAK Ceramics Website

2.2.2. Management Practices

RAK Ceramics has a great management policy and framework in place to ensure that their staff perform effectively and make the best judgments possible in accordance with their overall business strategy.



Organogram of “R.A.K” Ceramic’s (Bangladesh) Pvt. Ltd⁴

⁴<https://pdfcoffee.com/rak-final-report-pdf-free.html>

2.2.2. Structure of the Board

The Board of Directors of RAK Ceramics BD composed of five members, including 2 independent directors. The Directors are charged for setting the company's business objectives, providing advice, monitoring, and defending creditors' rights, among many other issues. The company also includes a Chairman and Managing Director who are called non-executive (*Overview / RAK Ceramics, n.d.*). The Managing Director is in the authority of the Company's day-to-day activities, with the assistance of executive management.

| Board of Director | |
|---|---|
| Chairman | Mr. Abdallah Massaad |
| Managing Director | SAK Ekramuzzaman |
| Director | Pramod Kumar Chand |
| Independent Director | Wassim Moukahhal |
| Independent Director | Faheemul Huq, Barrister-at-Law |
| Executive Management | |
| Chief Operating Officer & Chief Financial Officer | Sadhan Kumar Dey |
| Vice President-SCM, HR & Admin | Mohammad Jahirull Reza |
| Vice President-Sales | MD. Mizanur Rahman |
| Company Secretary | Muhammad Shahidul Islam |
| Head of Internal Audit & Compliance | Mohammad Samsul Arefin |
| Deputy General Manager-Tiles | Krishna Phanendra Srinivas Soma Venkata |
| Production Manager-SWD | Adireddy Pasunoori |

Table 2: Management of RAK Ceramics Bangladesh ⁵

2.2.3. Board Procedure

In matters needing Board debate and decision, the Board adopts the practice of advance preparing to enhance accountability. The Board evaluates the presentation on finance, sales, marketing, the Company's primary business areas and functions, and other topics as requested by the members(*Overview / RAK Ceramics, n.d.*). In conjunction with the other individual

⁵ Annual Report 2016-2020

responsible, the Managing Director and the Company Secretary complete the agenda materials for the Board meeting. Each Board meeting's proceedings are recorded in accordance with statutory requirements(Company, n.d.).

2.2.4. Audit Committee

As per RAK Ceramics, internal audit has been one of the "core elements" of management practice, which also comprises the Board of Directors, Management, and External Auditors. The Company has its independent internal audit function, which is controlled by the Board of Directors' Audit Committee. The internal auditing at RAK helps the firm meet its objective by reviewing and enhancing the effectiveness of the company's risk administration, control, and monitoring and tracking in an organized and systematic manner(*Overview / RAK Ceramics*, n.d.).

2.2.5. Human Resource Management

RAK Ceramics Bangladesh considers its human resource management to be its most valuable asset. This human capital motivates the organization to achieve its objectives. Because the business climate is constantly changing, having a good workforce is essential. As a result, the Company has placed a greater emphasis on developing management skills to meet the needs of today's business environment. Throughout the year, many training programs and workshops were held. Throughout the year, the company's management and employee connections were good(Company, n.d.).

2.2.6. Subsidiary

RAK Ceramics BD has two subsidiary companies, and the Company ensured the following in its subsidiaries: The standards for the Board of Directors' composition- which includes independent directors, were met. The Company's independent director also serves on the boards of subsidiary firms. In a meeting of the Company's Board of Directors, the affairs of subsidiary firms were reviewed. Minutes of subsidiary company Board meetings have been placed on the agenda for the Company's Board meeting to examine. The Company's audit committee has reviewed the financial statements of its subsidiary firms(Hero, n.d.).

Through constant monitoring, RAK Ceramics BD ensured the highest standards in corporate effective governance and strict adherence to the criteria of the ethical code of conduct. Every

division of workers has been trained and encouraged to report whistle-blowing when they detect malfeasance by other employees(*Overview / RAK Ceramics*, n.d.).

2.3. Marketing Practices

RAK Ceramics Bangladesh has a strong marketing team to manage the marketing side. RAK's sales and marketing staff is constantly working to better understand their clients. They place a premium on the customer's viewpoint. What users and consumers want and expect from the organization is the primary foundation for market research and assessment. The sales and marketing team of RAK Ceramics Bangladesh Ltd. is constantly analyzing their financials. This division is in charge of the company's finances in order to provide product and service details to customers and clients(Akter, 2015).

RAK Ceramics Bangladesh Ltd. does not sell directly to customers. Only the company's dealers sell the company's products. In Dhaka and a few divisional districts, RAK has two showrooms. Marketing mediators include resellers, physical distribution facilities, marketing services firms, and financial intermediates. These are the people who help the company promote, sell, and distribute its products to end customers(Marketing, n.d.).

RAK ceramics are usually aimed towards the product's genuine buyer. RAK Ceramics' target clients are middle and higher middle class customers, depending to the social class classification idea. In terms of income stratification, the client's income ranges from \$30,000,000 to \$50,000,000, making them a large RAK Ceramics customer. The Bangladeshi developed and industrialized are RAK's main target market. RAK ceramics and sanitary goods are purchased by development companies for their ongoing projects. Approximately 40% of the product is sold to developer organizations. RAK's sales and marketing department provides free samples to customers in order to persuade them. The majority of the merchandise has been sold to the building owners(Marketing, n.d.). RAK Ceramics Bangladesh Ltd is targeting architectural and consulting organizations as its target market.

The marketing team holds a regular meeting once a month, which is led by the GM Sales & Marketing. The session's chairmen assess the employees' overall performance over the previous month and offer advice on how to improve product marketing in the future. As a marketer, one company must understand the distinction between the two in order to tailor the marketing effort to represent the values of the desired customer. RAK executives in the sales and marketing departments always divide the culture into two categories.

2.4. Financial Performance & Accounting Practices

Bangladesh's RAK Ceramics is the country's largest and most reputable tile and sanitary-ware manufacturer. The Company's market-leading capabilities, world-class manufacturing assets, high production utilization levels, efficient cost structures, lively sales and distribution network, outstanding post-sales support, and extensive customer engagement programs have helped the company achieve this position. Their relentless pursuit of long-term growth in shareholder value is guided by their commitment to the basic financial goals, which include –

- Consistent delivery of operational and capital efficiencies to boost return on capital employed (ROCE).
- Continual cost competitiveness improvement.
- Prudent and disciplined resource and capital allocation, which is based on two key areas
- Prudent and disciplined management of balance sheet risks through our financial risk management plan.
- One, enhance the financial sheet; and, two, prioritize resource allocation based on value.

The company reported reduced of gross profit margins of 7% and sales of BDT 5,288.92 m for the year financial Year ended 31 December 31, 2020, compared to BDT 6,463.86 million in 2019. Moreover, the Company's revenues from the ceramic tiles division decreased by 14.49 percent and sanitary-ware division's revenues fell by 26.43 percent (Report, 2020).

(As this research paper is on financial performance analysis of RAK Ceramic Bangladesh, so this section has discussed in the chapter 3 sections in details.)

2.5. Operations Management and Information System Practices

Since current demand is rising, market opportunities and uses for products may emerge. It also necessitates a company's ability to keep ahead of the competition by updating its own technology as it becomes obsolete.

RAK is continuously up to date with the latest developments such that they may be a member of another great challenge instead of just being obsolete and facing the financial implications. New product and market opportunities are created by forces that develop new technology.

Because the ceramics industry is becoming increasingly competitive, RAK is embracing all forms of new technological innovation to keep up with expanding new client demand.

RAK Ceramics Bangladesh is a forerunner in the business when it comes to adopting cutting-edge technology. Digital printing technology, huge slabs, slim, anti-microbial, glow in the dark, double charge, roll feed, and other innovative technologies such as granitech, technoslate, twin press, dry glaze, and waterjet, to mention a few, are all used at the company's state-of-the-art plants(Company, n.d.).

RAK Ceramics uses the following technologies: Google Global Site Tag, Google Cloud Platform, Google Maps API, and PetWise Marketing.

The website's submenu "Investors" contains all of the information on financial statements, shareholding patterns, corporate perks, notices, price sensitive information, dividend, return warrant, and so on. RAK Ceramics (Bangladesh) Limited's management, vision and mission, value statement, investor relations, sales network, goods, promotions, and events are all detailed on the company's website. Furthermore, the Company discloses the whole regulatory requirement on its website on a regular basis(*Overview / RAK Ceramics*, n.d.).

2.6. Industry and Competitive Analysis

2.6.1. Overview of Ceramics Industry of Bangladesh

The Ceramics business started in the last part of the 1950s with the foundation of the primary ceramic unites in Bangladesh. But in the previous two decades, the market has gained traction. The domestic ceramics goods market is estimated to be worth around Tk. 6,000 core each year. Foreign investment has been drawn to the ceramics industry of Bangladesh. China and other geographic region countries have made the bulk of the investment that features RAK Ceramics, Fu Wang, and China-Bangla are a number of the key venture partners in Bangladesh's ceramic industry. Furthermore, imports have been replaced with ceramics exports, since the industry has seen significant investments in the last decade or so.

There are already 60+ ceramics firms in the country, with another 20 on the way, including those producing dinnerware, tiles, and sanitary-ware. Domestic manufacturing can meet 96 percent of tableware, 77 percent of tile, and 89 percent of sanitary-ware demand, demonstrating that there is room for domestic expansion in addition to exports(Report, 2020).

Ceramics are exported to more than 45 nations of the world. Among them The United States, Italy, Spain, France, New Zealand, the Netherlands, Australia, and Sweden are the top export region. China and Thailand are two of the most major international competitors for Bangladeshi ceramic manufacturers. Bangladesh, on the other hand, is in a strong position thanks to local manufacturers' low labor costs (Company, n.d.).The ceramics industry not only covers 85% of domestic consumption, but it also supplies a significant amount of the international market and is on track to become the third-largest sector in the next five years.

Bangladesh's ceramics sector is expected to double in size by 2023, thanks to a booming domestic real estate industry, the advent of affordable housing, low mortgage finance rates, and expanding demand for products in European markets. A recent USAID research made a similar prediction, predicting that Bangladesh's ceramics industry would be worth US\$ 1.56 billion by 2023(Report, 2020).

2.6.2. Competitive Analysis.

According to the company's strong marketing policies and initiatives, RAK Ceramics Bangladesh Ltd. retains a competitive advantage over its opponents. They recognize the importance of consumers and aim to provide the finest service possible. Customer happiness is critical for a company's survival in the market, long-term viability, and position as a market leader(Competitive, n.d.). They consistently have in perspective that their most valuable asset is their clients. The major compactors of RAK are FU- Wang Ceramics, Monno Ceramics, Shinepukur Ceramics limited etc.

| | For the year ended 31 Dec2020 | For the year ended 30 June 2020 (BDT) 6 | | | |
|---------------------------|-------------------------------|--|-------------------|---------------------|---------------------|
| | RAK Ceramics ltd | Fu-Wang Ceramic ltd | Monno Ceramic Ltd | Shinepukur Ceramics | Shinepukur Ceramics |
| Sales | 5,288.92 | 585.56 | 1205.08 | 602.38 | 233.74 |
| Gross Profit | 1,189.80 | 221.07 | 110.21 | 185.86 | 16.21 |
| Net profit/Loss after tax | 310.65 | 63.65 | 18.10 | 31.59 | (40.82) |
| Net Asset Value per share | 16.41 | 11.50 | 59.50 | 29.09 | 9.56 |

Table 3: Financial scenario of ceramics companies in Bangladesh⁶

⁶ Annual Report 2020

2.6.2.1. SWOT Analysis

Strengths

RAK's assets are its resources and capabilities, which can be leveraged to create a competitive advantage. In terms of product quality, reliability, stability, image, company reputation, and location, the corporation has a stronger position.

- They've built a solid brand identity and image for themselves. They are the most well-known and well-established ceramics industry not in our country but also they are the world's leading ceramic manufacturer. It operates in over 160 countries.
- Their entire product line is created in a variety of sizes so that consumers can tailor their product according to their preferences, which they are the only company in the ceramics business to do.

Weakness

- As a major worldwide player, RAK constantly scrutinized by the public for any decisions the company makes.
- The brand has yet to make an impact in emerging markets.
- Access to the best natural resources is limited and importing raw materials is expensive the company has structured with a high cost.
- Access to important distribution channels is restricted.

Opportunities

- RAK ceramics' main competitive edge is this. They've always tried to make a concerted effort to create the ideal atmosphere in our lives through a masterful blend of technical skill. They have a higher standard and use the most up-to-date technological management system than the rest of the industry.
- Regulations are being eased, and trade obstacles between countries are being lifted. It can expand into new markets by leveraging its global distribution network. The possibilities include mergers, joint ventures, and strategic partnerships.
- Because it possesses a considerable amount of Brand Equity, it can potentially look into mergers. This would help it build a stronger brand while also allowing it to enter previously untapped markets. Increasing profit margins by expanding into new market niches.

Threats

- RAK ceramic is currently up against tough competition from national and regional manufacturers in most countries as competitors have easier access to distribution channels than they do.
- RAK Ceramic also has pricing challenges, as other area enterprises compete for market share by offering things at significantly lower costs. Moreover, opposition has creating a cutting-edge product or service.
- Consumer tastes are increasingly shifting from the company's offerings, and substitutes are beginning to emerge.

2.7. Summary and Conclusion

Bangladesh's RAK Ceramics is the country's leading producer and retailer of high-end architectural building materials. RAK Ceramics BD is a progressive and adaptable company that works in a targeted, constructive, and jointly advantageous approach with all of its stakeholders. It is strategically placed to profit from a few of the structural long-term development factors, such as urbanization, residential under-penetration, financing solutions availability, and a rising aspiring middle-class. Moreover, it is the indisputable leader in all major markets across the country, with 20 years of deep experience, market-leading positions, large scale, and contemporary operations.

2.8. Recommendations

- RAK should place a greater emphasis on operational excellence in order to lead production with continued innovation, improved performance, more sustainable features, and easier care, which may make products a preferred consumer choice and enable them to meet their goals, and continuing to improve operational performance will ensure the company's long-term viability.
- RAK should strengthen its leadership position in greater sectors such as corporate B2B, reputable builders in city environments, small and medium affordable housing developers in remote regions, and personal construction companies.
- Since current demand is rising, market opportunities and uses for products may emerge. It also necessitates a company's ability to keep ahead of the competition by updating its own technology as it becomes obsolete.

Chapter 3

Project Title: Financial Performance of RAK Ceramic Bangladesh

3.1 Introduction

Financial decisions are now one of the most important indicators for a company. A company must make decisions that balance the aims of wealth maximization and profit maximization from the beginning of the organization. Financial ratios are a crucial instrument in financial analysis and decision-making. The purpose of this study is to analyze financial performance of RAK ceramics Bangladesh by a comparative study of financial ratio analysis and relate practical and theoretical knowledge.

3.1.1. Objectives

- To analyze financial performance of the RAK Ceramics Bangladesh Ltd.'s and evaluating the company's financial strengths and weaknesses
- To determine the current state of the RAK Ceramics' ability to pay its short-term and long term debt obligations
- To analyze how the RAK Ceramics manages and utilizes of their assets
- To identify the profitability condition in order to find the effectiveness of RAK Ceramics
- To know how efficiently RAK Ceramics operates the business in terms of investment valuation
- To provide recommendations depending on the research's results

3.2 Methodology

This analyzes is on RAK Ceramic Bangladesh Ltd.'s financial performance by comparing the 5 years (2016 to 2020) balance sheet and income statement from RAK Ceramic's annual reports.

For the analysis part, financial ratio analysis, trend and vertical analysis has been applied. The ratio analysis has been divided into four parts so that RAK can be analyzed in four categories, such as- liquidity and solvency, assets management, profitability and investment valuation.

The data that has been used in this research all are collected from secondary sources. Such as- company's annual report from 2016 to 2020, journals, Wikipedia, Website of RAK, Academia, Course Hero, Lanka Bangla Financial Portal, etc. As a tool for calculation and graph Microsoft excel has been used.

3.2.1. Limitation of the Study

In the research paper, the quantitative elements of the ratio analysis is addressed and it completely disregards the quality factor. Moreover, the analysis has done with the available secondary data, so the methods for calculating some elements, results, as well as the analysis and interpretation, findings of ratios may vary. Another major limitation of this paper is the study has a small time frame of 5 years so that the company's assessment may not present an accurate picture.

3.3. Literature Review

3.3.1. Financial Statement Analysis

Financial Statement Analysis is a process that includes studying and interpreting financial statements of a company or organization- in order to ascertain its past, existing, and predicted future effectiveness. For better economic decisions it can be made as a result of this procedure of evaluating financial statements (Mashkour, 2020).

3.3.2. Horizontal/ Trend Analysis

Horizontal analysis, also known as trend analysis- is a fundamental research method in which a researcher evaluates ratios or line items in a company's financial statements over time. The major goal is - to check if the numbers are unusually high or low in relation to previous records, so that any potential problems can be investigated. Therefore , "Dynamic Analysis" is the another name for horizontal analysis (Hossen, 2017).

3.3.3 Vertical Analysis

Vertical analysis is a proportional evaluation of a financial statement, in which each line element is presented as a percentage of another element on the financial statement. That generally means that each line element on an income statement or balance sheet is expressed as a percentage of gross sales and or total assets.

3.3.4. Financial Ratio Analysis

By examining financial accounts, such as- the balance sheet and income statement, ratio analysis is a quantitative approach of acquiring insight into a company's liquidity, operational efficiency, and profitability.

1. Liquidity and Solvency

A liquidity ratio is a financial measure which is used to assess a company's capability to handle its short-term loan commitments. The indicator is used to evaluate if a company's current assets, or liquid assets, can cover its current liabilities(CFI, n.d.) The liquidity ratio can be categorized into three groups. They are-

i) Current Ratio (CR): The current ratio calculation is very simple - dividing all of a company's current assets by all its current liabilities. These indicate that are assets that are cash or will be turned into cash in a year or less than a year, as well as commitments that will be serviced in a year or less(FERNANDO JASON, 2021).

ii) Quick Ratio (QR): The quick ratio is a measurement of a company's ability to meet short-term obligations with its most liquid assets (current asset - inventories), and it is a good indicator of the short-term liquidity situation. This ratio is otherwise called the acid analysis ratio as it incorporates all current resources as current responsibility inclusion this is the quickest proportion and more careful assessment than the current proportion(Seth Shobhit, 2021).

iii) Debt to Equity Ratio: Debt Management Ratios try to assess a company's usage of financial leverage and ability to avoid long-term financial difficulty. Long-Term Solvency Ratios are another name for these ratios. Debt management ratios show how unstable a company is and how much of its operational profits must be paid to bondholders instead of investors(Ceopedia Management, n.d.).

The debt-to-equity (D/E) ratio analyzes a company's total obligations to its shareholder equity and is applied to determine how much leverage the company has. Rising leverage ratios usually imply a company or stock that poses a greater risk to investors

iv) Cash Conversation Cycle: The CCC is a significant indication for ability to buy and maintain inventory since it indicates both operational and financial efficiency. The cash conversion cycle (CCC) – often known as the cash cycle – is a working capital indicator that measures how long it takes a company to convert cash into inventory, and then back into cash through the sales process. The lower a company's CCC, the less cash it has in accounts receivable and inventories(Conversion, n.d.).

As a result, it is a measure of the liquidity risk that growth entails. Shortening the CCC, on the other hand, comes with its own set of risks: while a company can achieve a negative CCC by collecting from clients prior making payments, a rigid collection and payment policy is not always sustainable.

2. Asset Management (Turnover) Ratio

Asset management (Turnover) ratios are used to determine how successfully and efficiently a company utilizes its assets to produce revenue. They represent a company's potential to convert its assets into sales(Management, n.d.).

i) Inventory Turnover Ratio: The inventory turnover ratio refers to the number of times a company's inventory has been sold and restocked in a certain period of period. All items, whether raw or completed, that a corporation has in stock with the aim to sell are considered inventory. The method can likewise be applied to determine how long it will take to sell the current, inventory. Therefore, divide the cost of products by the average inventory for the same period to get the inventory turnover ratio(Jenkins Abby, 2020).

ii) Total Asset Turnover Ratio: This ratio measures a company's potential to generate revenues successfully and is frequently used by outside entities to evaluate its operations. A company's revenues are compared to its total assets in the total asset turnover ratio. A corporation with a high total asset turnover ratio, on the other hand, may be able to operate with fewer assets and less debt and equity than a less efficient competitor. As a result, stockholders should see a larger return on their investment(Asset, 2021).

iii) Days Sales Outstanding / Average Collection Period: The average number of days it takes a corporation to receive payment for a sale is measured by days sales outstanding (DSO). DSO is usually calculated monthly, quarterly, or annually. A low DSO shows that the business is receiving payments on time. That money could be put to excellent use in the firm. Moreover, a higher DSO score indicates that a company is facing payment delays. This may

result in a cash flow concern. A DSO of less than 45 days is often considered poor (Will Kenton, 2021).

3. Profitability Ratio

Profitability ratios were designed to quantify a company's efficiency in the utilization of its assets, specifically the efficiency linked with the selling of works. The ratios show the combined effects of liquidity, asset management and debt on operating results. Higher ratio outcomes are often more beneficial, although when comparing to the outcomes of similar companies, the company's own previous performance, or the industry average, these ratios reveal considerably more detail (Hayes Adam, 2021).

i) Gross Profit Margin: The gross margin of a company's goods and services tells that how profitable they are. It shows that how much it costs to create products. The gross profit margin displays the revenue before subtracting selling, general, and administrative expenditures, which is the net profit margin of the company. It's computed by multiplying the quotient of your gross profit (GP) and net sales (NS) by 10.

ii) Operating Profit Margin: The Operating Profit Margin is a profitability or performance ratio that indicates the percentage of profit generated by a company's operations before taxes and interest charges are deducted. Higher margins are preferred over lower profit margins, and therefore it can be analyzed across comparable companies but not throughout the industries.

iii) Net Profit Margin: The ratio of profit earned by a company activities to the total amount of revenue (net sales) generated by the company entity is defined as that of the net profit margin. Investors can use net margin to analyze a company's performance over time and among its competitors. If a corporation embarks on a strategic plan to boost profitability, investors might use net profit margin to determine whether the project is successful. If a company's net margin is declining, investors can use this information to spot signs of financial distress.

4. Investment Valuation

Investors value investment valuation ratios because they can effectively determine a company's worth. They're all like individual pieces, and by putting them together, an investor can get a whole picture. A business can be assessed either on an absolute or relative basis by

comparing it to opponents. Investment valuation ratios show how a company's or its equity's market value relates to some basic financial parameters like earnings.

i) Return on Total Asset (ROA): This ratio refers to a comparison of profits after taxes to total assets. Higher ROA refers to more asset efficiency and that indicates the larger the ROA, the better.

ii) Return on Equity (ROE): The Return on Equity (ROE) ratio effectively assesses the rate of return on a company's common stock held by its shareholders. The company's ability to generate returns on the investment it received from its shareholders is measured by its return on equity.

iii) Return on Invested Capital: A profitability ratio is the return on invested capital (ROIC). It calculates the profit that an investment provides for people who put money into it, such as bondholders and investors. The Return on Investment Calculator (ROIC) tells us how well a company converts capital into earnings.

iv) Dividend Payout Ratio: It is the evaluation of the percentage of profits distributed to shareholders in the form of dividends. The dividend payout ratio is the evaluation of the percentage of a profit that is allocated to shareholders as dividends. The profit that isn't paid out to shareholders is kept by the company to pay down debt or reinvest in core functions.

v) Earnings per Share: The ratio refers the company's stock price to its earnings and book value share. The earning per share is a valuation ratio that compares a company's present share price to its earnings per share (EPS).

vi) Net Asset Value per Share: Net assets divided by the number of equity shares in circulation. A share buyback that results in an increase in net assets per share.

vii) Market Capitalization: The term "market cap" is used to describe the size of a company and its overall market worth. The "larger" the company is, the higher the value. The overall valuation of a firm depending on the current share price and total number of outstanding shares is known as market capitalization.

viii) Price Earnings Ratio: The price-to-earnings (P/E) ratio is an evaluation indicator that investors apply to determine whether a business is undervalued or overvalued. A higher ratio indicates that investor expect higher earnings.

ix) Price Sales Ratio: The ratio expresses how much it costs to buy one share of a corporation in relation to how much revenue it creates for the company.

Important Formulas for Ratio Analysis.

| Name | Formula |
|-----------------------------|---|
| Current Ratio | Current Asset /Current Liabilities |
| Quick Ratio | (Current Asset-Inventories)/ Current Liabilities |
| Debt-Equity Ratio | Total Liabilities / Shareholders' Equity |
| Cash Conversion Cycle | Days of inventory outstanding (DIO) + days sales outstanding (DSO) + Days payables outstanding (DPO) $CCC = [(Inventory/COGS) * 365] + [(Accounts\ receivable/Sales)* 365] [(Accounts\ payable/Sales)* 365]$ |
| Inventory Turnover Ratio | Sales/Inventories |
| Total Asset Turnover | Net Sales / Total Assets |
| DSO | Receivables / Average sales per day |
| Gross profit Margin | {(Revenue – Cost of Goods Sold) / Revenue} x 100 |
| Operating profit margin | (Operating income / Net sales) x 100 |
| Net profit margin | {Net profit after tax / sales} x 100 |
| Return on total asset (ROA) | Net income/ Total assets |
| Return on Equity (ROE) | Net income/ Common equity |
| ROIC | (Net income - Dividends) / (Debt + Equity) |
| Dividend payout ratio | Dividend/ Net income |
| Earnings per share | (Price per share)/(Earnings per share) |
| Net asset value per share | Net asset value/Shares outstanding |
| Market Capitalization | market value per share *outstanding share |
| Price earnings ratio | Market Price per share/ Earning per share |
| Price sales ratio | Market capitalization/ sales or revenue |

Table 4: Formulas of Ratio Analysis

3.4. Analysis and Findings

| BALANCE SHEET | | | | | |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | RAK Ceramics Bangladesh | | | | |
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | BDT 3,087,064,214.00 | BDT 3,002,294,289.00 | BDT 3,200,651,808.00 | BDT 3,394,940,284.00 | BDT 4,005,119,013.00 |
| Investment property | BDT 503,456,083.00 | BDT 681,433,368.00 | BDT 691,149,776.00 | BDT 701,681,877.00 | |
| Right of use assets | BDT 21,183,255.00 | BDT 45,836,335.00 | | | |
| Intangible assets | BDT 3,132,358.00 | BDT 6,495,047.00 | BDT 11,916,384.00 | BDT 5,429,027.00 | BDT 6,740,159.00 |
| Capital work in progress | BDT 56,636,694.00 | BDT 177,641,997.00 | BDT 127,781,532.00 | BDT 41,415,719.00 | BDT 28,726,285.00 |
| Trade and other receivables | | | | | BDT 74,025,000.00 |
| Total non-current assets | BDT 3,671,472,603.00 | BDT 3,913,701,037.00 | BDT 4,031,499,500.00 | BDT 4,143,466,907.00 | BDT 4,114,610,457.00 |
| Current assets | | | | | |
| Inventories | BDT 2,026,990,380.00 | BDT 2,785,630,242.00 | BDT 3,005,616,081.00 | BDT 2,533,703,266.00 | BDT 2,527,507,042.00 |
| Loan to disposed subsidiary | | | | | BDT 201,898,000.00 |
| Trade and Other receivables | BDT 1,008,800,248.00 | BDT 859,960,257.00 | BDT 871,791,127.00 | BDT 590,423,877.00 | BDT 618,841,556.00 |
| Advances, deposits and prepayments | BDT 270,311,098.00 | BDT 267,192,251.00 | BDT 322,820,432.00 | BDT 309,772,083.00 | BDT 406,247,968.00 |
| Advance income tax | BDT 3,588,659,675.00 | BDT 3,434,063,275.00 | BDT 3,125,317,011.00 | BDT 2,831,624,003.00 | BDT 2,485,841,759.00 |
| Cash and cash equivalents | BDT 1,949,194,840.00 | BDT 1,499,310,101.00 | BDT 829,807,227.00 | BDT 1,382,359,206.00 | BDT 802,643,479.00 |
| Total current assets | BDT 8,843,956,241.00 | BDT 8,846,156,126.00 | BDT 8,155,351,878.00 | BDT 7,647,882,435.00 | BDT 7,042,979,804.00 |
| Total Assets | BDT 12,515,428,844.00 | BDT 12,759,857,163.00 | BDT 12,186,851,378.00 | BDT 11,791,349,342.00 | BDT 11,157,590,261.00 |
| EQUITY AND LIABILITIES | | | | | |
| Equity | | | | | |
| Share capital | BDT 4,279,687,010.00 | BDT 4,279,687,010.00 | BDT 3,890,624,560.00 | BDT 3,536,931,410.00 | BDT 3,368,506,110.00 |
| Share premium | BDT 1,473,647,979.00 | BDT 1,473,647,979.00 | BDT 1,473,647,979.00 | BDT 1,473,647,979.00 | BDT 1,473,647,979.00 |
| Retained earnings | BDT 1,269,975,797.00 | BDT 1,636,929,820.00 | BDT 1,628,694,442.00 | BDT 1,445,455,970.00 | BDT 1,269,570,793.00 |
| Equity attributable to equity holders of company | BDT 7,023,310,786.00 | BDT 7,354,611,900.00 | BDT 6,992,966,981.00 | BDT 6,456,035,359.00 | BDT 6,111,724,882.00 |
| Non-Controlling Interest | BDT 1,314.00 | BDT 1,393.00 | BDT 1,546.00 | BDT 1,524.00 | BDT 1,501.00 |
| Total Equity | BDT 7,023,312,100.00 | BDT 7,354,611,900.00 | BDT 6,992,968,527.00 | BDT 6,456,036,883.00 | BDT 6,111,726,383.00 |
| Liabilities | | | | | |
| Non-current liabilities | | | | | |
| Borrowings | | | BDT 88,203,349.00 | BDT 359,163,292.00 | BDT 594,926,064.00 |
| Deferred tax liability | BDT 191,761,301.00 | BDT 191,893,149.00 | BDT 197,934,495.00 | BDT 178,813,760.00 | BDT 128,416,223.00 |
| Lease liability | BDT 9,291,390.00 | BDT 29,374,867.00 | | | |
| Total non-current liabilities | BDT 201,052,691.00 | BDT 221,268,016.00 | BDT 286,137,844.00 | BDT 537,977,052.00 | BDT 723,342,287.00 |
| Current liabilities | | | | | |
| Employees benefits payable | | | | | BDT 3,458,783.00 |
| Borrowings | BDT 119,940,905.00 | BDT 89,232,918.00 | BDT 309,652,416.00 | BDT 548,162,038.00 | BDT 567,719,326.00 |
| Lease Liability | BDT 4,505,188.00 | BDT 10,101,008.00 | | | |
| Trade and other payables | BDT 675,069,613.00 | BDT 691,725,531.00 | BDT 528,659,578.00 | BDT 573,706,416.00 | BDT 589,425,022.00 |
| Accrued expenses | BDT 520,281,836.00 | BDT 558,665,634.00 | BDT 531,601,160.00 | BDT 447,661,843.00 | BDT 275,376,870.00 |
| Provision for income tax | BDT 3,971,266,511.00 | BDT 3,834,252,156.00 | BDT 3,537,831,853.00 | BDT 3,227,805,110.00 | BDT 2,886,541,590.00 |
| Total current liabilities | BDT 5,291,064,053.00 | BDT 5,183,977,246.00 | BDT 4,907,745,007.00 | BDT 4,797,335,407.00 | BDT 4,302,521,591.00 |
| Total liabilities | BDT 5,492,116,744.00 | BDT 5,405,245,263.00 | BDT 5,193,882,851.00 | BDT 5,335,312,459.00 | BDT 5,045,863,878.00 |
| TOTAL EQUITY AND LIABILITIES | BDT 12,515,428,844.00 | BDT 12,759,857,163.00 | BDT 12,186,851,378.00 | BDT 11,791,349,342.00 | BDT 11,157,590,261.00 |

Table 5: Balance Sheet of RAK Ceramic Bangladesh (Year 2016 – Year 2020)⁷

| Income Statement | | | | | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | RAK Ceramics Bangladesh | | | | |
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Turnover/sales | BDT 5,288,916,673.00 | BDT 6,463,857,312.00 | BDT 6,830,783,735.00 | BDT 6,956,185,329.00 | BDT 5,661,411,578.00 |
| Cost of Sales | BDT 4,099,115,721.00 | BDT 4,556,112,666.00 | BDT 4,315,805,600.00 | BDT 4,251,220,093.00 | BDT 3,252,054,966.00 |
| Gross Profit | BDT 1,189,800,952.00 | BDT 1,907,744,646.00 | BDT 2,514,978,135.00 | BDT 2,704,965,236.00 | BDT 2,409,356,612.00 |
| Other income | BDT 3,973,687.00 | BDT 46,204,060.00 | BDT 65,663,417.00 | BDT 12,392,921.00 | BDT 3,109,360.00 |
| Administrative expenses | BDT 340,243,455.00 | BDT 400,512,718.00 | BDT 381,819,268.00 | BDT 378,110,155.00 | BDT 357,446,247.00 |
| Impairment loss on trade receivable | BDT 677,294.00 | BDT 5,624,637.00 | BDT 3,601,431.00 | | |
| Marketing and selling expenses | BDT 414,376,760.00 | BDT 455,996,281.00 | BDT 909,398,992.00 | BDT 778,347,786.00 | BDT 704,320,334.00 |
| Total Operating Expense | BDT 751,323,822.00 | BDT 815,929,576.00 | BDT 1,229,156,274.00 | BDT 1,144,065,020.00 | BDT 1,058,657,221.00 |
| Profit from operating activities | BDT 438,477,130.00 | BDT 1,091,815,070.00 | BDT 1,285,821,861.00 | BDT 1,560,900,216.00 | BDT 1,350,699,391.00 |
| Finance income | BDT 51,548,759.00 | BDT 32,878,148.00 | BDT 38,410,830.00 | BDT 22,165,853.00 | BDT 21,029,885.00 |
| Finance expenses | BDT 19,673,258.00 | BDT 27,323,676.00 | BDT 39,394,022.00 | BDT 101,024,936.00 | BDT 40,014,661.00 |
| Net finance Income | BDT 31,875,501.00 | BDT 5,554,472.00 | BDT (983,192.00) | BDT (78,859,083.00) | BDT (18,984,776.00) |
| Profit before contribution to workers' profit participation and welfare fund and income tax | BDT 470,352,631.00 | BDT 1,097,369,542.00 | BDT 1,284,838,669.00 | BDT 1,482,041,133.00 | BDT 1,331,714,615.00 |
| Contribution to workers' profit participation and welfare fund | BDT 22,816,672.00 | BDT 52,965,129.00 | BDT 58,913,315.00 | BDT 67,441,264.00 | BDT 61,056,166.00 |
| Profit Before Tax | BDT 447,535,959.00 | BDT 1,044,404,413.00 | BDT 1,225,925,354.00 | BDT 1,414,599,869.00 | BDT 1,270,658,449.00 |
| Income tax expense | | | | | |
| Current tax | BDT (137,014,355.00) | BDT (296,420,303.00) | BDT (316,179,434.00) | BDT (346,190,210.00) | BDT (302,798,649.00) |
| Deferred tax | BDT (131,848.00) | BDT 6,041,346.00 | BDT (19,120,735.00) | BDT (50,397,537.00) | BDT (52,605,029.00) |
| Total Tax | BDT (137,146,203.00) | BDT (290,378,957.00) | BDT (335,300,169.00) | BDT (396,587,747.00) | BDT (355,403,678.00) |
| Profit After Tax | BDT 310,389,756.00 | BDT 754,025,456.00 | BDT 890,625,185.00 | BDT 1,018,012,122.00 | BDT 915,254,771.00 |
| Free Cash Flow | | BDT 1,305,700,000.00 | BDT 259,780,000.00 | BDT 1,506,870,000.00 | |
| Common Share Outstanding | BDT 427,968,701.00 | BDT 427,968,701.00 | BDT 427,968,701.00 | BDT 427,968,701.00 | BDT 427,968,701.00 |
| EPS | BDT 0.73 | BDT 1.76 | BDT 2.29 | BDT 2.62 | BDT 2.72 |
| Share Price | | | | | |
| Dividend paid | BDT 634,047,427.00 | BDT 386,966,131.00 | BDT 351,973,215.00 | BDT 669,736,148.00 | BDT 838,775,610.00 |
| Dividend per share | BDT 1.48 | BDT 0.90 | BDT 0.82 | BDT 1.56 | BDT 1.96 |
| Share Price | BDT 26.00 | BDT 28.30 | BDT 38.64 | BDT 49.59 | BDT 49.74 |

Table 6: Income Statement of RAK Ceramic Bangladesh (Year 2016 – Year 2020)⁸

⁷ Annual Report 2016 to 2020

3.4.1. Trend/horizontal Analysis

| Trend analysis of Balance sheet | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| RAK Ceramics Bangladesh | | | | | |
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 100% | -15% | -20% | -25% | -23% |
| Investment property | | | | | |
| Right of use assets | | | | | |
| Intangible assets | 100% | -19% | 77% | -4% | -54% |
| Capital work in progress | 100% | 44% | 345% | 518% | 97% |
| Trade and other receivables | 100% | -100% | -100% | -100% | -100% |
| Total non-current assets | 100% | 1% | -2% | -5% | -11% |
| Current assets | | | | | |
| Inventories | 100% | 0% | 19% | 10% | -20% |
| Loan to disposed subsidiary | 100% | -100% | -100% | -100% | -100% |
| Trade and Other receivables | 100% | -5% | 41% | 39% | 63% |
| Advances, deposits and prepayments | 100% | -24% | -21% | -34% | -33% |
| Advance income tax | 100% | 14% | 26% | 38% | 44% |
| Cash and cash equivalents | 100% | 72% | 3% | 87% | 143% |
| Total current assets | 100% | 9% | 16% | 26% | 26% |
| Total Assets | 100% | 6% | 9% | 14% | 12% |
| EQUITY AND LIABILITIES | | | | | |
| Equity | | | | | |
| Share capital | 100% | 5% | 16% | 27% | 27% |
| Share premium | 100% | 0% | 0% | 0% | 0% |
| Retained earnings | 100% | 14% | 28% | 29% | 0% |
| Equity attributable to equity holders of company | 100% | 6% | 14% | 20% | 15% |
| Non-Controlling Interest | 100% | 2% | 3% | -7% | -12% |
| Total Equity | 100% | 6% | 14% | 20% | 15% |
| Liabilities | | | | | |
| Non-current liabilities | | | | | |
| Borrowings | 100% | -40% | -85% | -100% | -100% |
| Deferred tax liability | 100% | 39% | 54% | 49% | 49% |
| Lease liability | | | | | |
| Total non-current liabilities | 100% | -26% | -60% | -69% | -72% |
| Current liabilities | 100% | | | | |
| Employees benefits payable | 100% | -100% | -100% | -100% | -100% |
| Borrowings | 100% | -3% | -45% | -84% | -79% |
| Lease Liability | 100% | | | | |
| Trade and other payables | 100% | -3% | -10% | 17% | 15% |
| Accrued expenses | 100% | 63% | 93% | 103% | 89% |
| Provision for income tax | 100% | 12% | 23% | 33% | 38% |
| Total current liabilities | 100% | 11% | 14% | 20% | 22% |
| Total liabilities | 100% | 6% | 3% | 7% | 9% |
| TOTAL EQUITY AND LIABILITIES | 100% | 6% | 9% | 14% | 12% |

Table 7: Trend/ Horizontal Analysis of Balance Sheet

⁸ Annual report 2016 to 2020

| Trend analysis of Income statement | | | | | |
|--|-------------|-------------|-------------|--------------|--------------|
| RAK ceramic Bangladesh | | | | | |
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| Turnover/sales | 100% | 23% | 21% | 14% | -7% |
| Cost of Sales | 100% | 31% | 33% | 40% | 26% |
| Gross Profit | 100% | 12% | 4% | -21% | -51% |
| Other income | 100% | 299% | 2012% | 1386% | 28% |
| Administrative expenses | 100% | 6% | 7% | 12% | -5% |
| Impairment loss on trade receivable | | | | | |
| Marketing and selling expenses | 100% | 11% | 29% | -35% | -41% |
| Total Operating Expense | 100% | 8% | 16% | -23% | -29% |
| Profit from operating activities | 100% | 16% | -5% | -19% | -68% |
| Finance income | 100% | 5% | 83% | 56% | 145% |
| Finance expenses | 100% | 152% | -2% | -32% | -51% |
| Net finance Income | 100% | 315% | -95% | -129% | -268% |
| Profit before contribution to workers' profit participation and welfare fund and income tax | 100% | 11% | -4% | -18% | -65% |
| Contribution to workers' profit participation and welfare fund | 100% | 10% | -4% | -13% | -63% |
| Profit Before Tax | 100% | 11% | -4% | -18% | -65% |
| Income tax expense | | | | | |
| Current tax | 100% | 14% | 4% | -2% | -55% |
| Deferred tax | 100% | -4% | -64% | -111% | -100% |
| Total Tax | 100% | 12% | -6% | -18% | -61% |
| Profit After Tax | 100% | 11% | -3% | -18% | -66% |

Table 8: Trend / Horizontal Analysis of Income Statement

3.4.2. Vertical Analysis

| Vertical Analysis of Balance Sheet | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| RAK Ceramic Bangladesh | | | | | |
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 25% | 24% | 26% | 29% | 36% |
| Investment property | 4% | 5% | 6% | 6% | 0% |
| Right of use assets | 0% | 0% | 0% | 0% | 0% |
| Intangible assets | 0% | 0% | 0% | 0% | 0% |
| Capital work in progress | 0% | 1% | 1% | 0% | 0% |
| Trade and other receivables | 0% | 0% | 0% | 0% | 1% |
| Total non-current assets | 29% | 31% | 33% | 35% | 37% |
| Current assets | | | | | |
| Inventories | 16% | 22% | 25% | 21% | 23% |
| Loan to disposed subsidiary | 0% | 0% | 0% | 0% | 2% |
| Trade and Other receivables | 8% | 7% | 7% | 5% | 6% |
| Advances, deposits and prepayments | 2% | 2% | 3% | 3% | 4% |
| Advance income tax | 29% | 27% | 26% | 24% | 22% |
| Cash and cash equivalents | 16% | 12% | 7% | 12% | 7% |
| Total current assets | 71% | 69% | 67% | 65% | 63% |
| Total Assets | 100% | 100% | 100% | 100% | 100% |
| EQUITY AND LIABILITIES | | | | | |
| Equity | | | | | |
| Share capital | 34% | 34% | 32% | 30% | 30% |
| Share premium | 12% | 12% | 12% | 12% | 13% |
| Retained earnings | 10% | 13% | 13% | 12% | 11% |
| Equity attributable to equity holders of company | 56% | 58% | 57% | 55% | 55% |
| Non-Controlling Interest | 0% | 0% | 0% | 0% | 0% |
| Total Equity | 56% | 58% | 57% | 55% | 55% |
| Liabilities | | | | | |
| Non-current liabilities | | | | | |
| Borrowings | 0% | 0% | 1% | 3% | 5% |
| Deferred tax liability | 2% | 2% | 2% | 2% | 1% |
| Lease liability | 0% | 0% | 0% | 0% | 0% |
| Total non-current liabilities | 2% | 2% | 2% | 5% | 6% |
| Current liabilities | | | | | |
| Employees benefits payable | 0% | 0% | 0% | 0% | 0% |
| Borrowings | 1% | 1% | 3% | 5% | 5% |
| Lease Liability | 0% | 0% | 0% | 0% | 0% |
| Trade and other payables | 5% | 5% | 4% | 5% | 5% |
| Accrued expenses | 4% | 4% | 4% | 4% | 2% |
| Provision for income tax | 32% | 30% | 29% | 27% | 26% |
| Total current liabilities | 42% | 41% | 40% | 41% | 39% |
| Total liabilities | 44% | 42% | 43% | 45% | 45% |
| TOTAL EQUITY AND LIABILITIES | 100% | 100% | 100% | 100% | 100% |

Table 9: Vertical Analysis of Balance Sheet

| Vertical Analysis of Income statement | | | | | |
|--|------------|------------|------------|------------|------------|
| RAK Ceramic Bangladesh | | | | | |
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Turnover/sales | 100% | 100% | 100% | 100% | 100% |
| Cost of Sales | 78% | 70% | 63% | 61% | 57% |
| Gross Profit | 22% | 30% | 37% | 39% | 43% |
| | 0% | 0% | 0% | 0% | 0% |
| Other income | 0% | 1% | 1% | 0% | 0% |
| Administrative expenses | 6% | 6% | 6% | 5% | 6% |
| Impairment loss on trade receivable | 0% | 0% | 0% | 0% | 0% |
| Marketing and selling expenses | 8% | 7% | 13% | 11% | 12% |
| Total Operating Expense | 14% | 13% | 18% | 16% | 19% |
| Profit from operating activities | 8% | 17% | 19% | 22% | 24% |
| | 0% | 0% | 0% | 0% | 0% |
| Finance income | 1% | 1% | 1% | 0% | 0% |
| Finance expenses | 0% | 0% | 1% | 1% | 1% |
| Net finance Income | 1% | 0% | 0% | -1% | 0% |
| Profit before contribution to workers' profit participation and welfare fund and income tax | 9% | 17% | 19% | 21% | 24% |
| Contribution to workers' profit participation and welfare fund | 0% | 1% | 1% | 1% | 1% |
| Profit Before Tax | 8% | 16% | 18% | 20% | 22% |
| Income tax expense | 0% | 0% | 0% | 0% | 0% |
| Current tax | -3% | -5% | -5% | -5% | -5% |
| Deferred tax | 0% | 0% | 0% | -1% | -1% |
| Total Tax | -3% | -4% | -5% | -6% | -6% |
| Profit After Tax | 6% | 12% | 13% | 15% | 16% |

Table 10: Vertical Analysis of Income Statement

Interpretation of Trend Analysis of Balance Sheet

As per the trend analysis of the RAK ceramics balance sheet, it is observed that the company has acquired 9% more current assets in 2017 than that of 2016 and 16% more in 2018 than 2016, 26% more in 2019 and 2020 than 2016. Inventories rise in 2018 by 19% than 2016 and in 2019 by 10% than 2016 but fell in 2020 by 20% than 2016. Share capital also increased in

the range of 5% to 27% than 2016. The non-current borrowing liabilities decreased in 2017 by 40% and in 2018 by 85% and the next two years were decreased by 100%. Also, current borrowing has decreased 3% to 79 % than 2016. Moreover, RAK's current liability has also increased 22% during this period in comparison to 2016.

Interpretation of trend analysis of income statement

Here 2016 is the base year of the trend analysis. In 2017, 2018, and 2019 sales were increased by 23%, 21%, and 14% respectively than 2016 but in 2020 RAK has decreased in sales by 7% than 2016.

In 2017 and 2018 the gross profit increased by 12% and 4 % respectively than 2016 but in 2019 and 2020 gross profit decreased by 21% and 51% respectively than 2016.

In 2017 and 2018 operating expenses increased by 8% and 16% respectively than 2016 but in 2019 and 2020 RAK decreased the operating expenses by 23% and 29 % respectively than 2016. In 2017, the profit before tax and profit after tax increased by 11% than 2016 but in 2018, 2018 and 2020 profit before tax fell by 4%, 18%, and 65% respectively than 2016, and profit before tax fell by 3%, 18%, and 66% respectively than 2016.

Interpretation of vertical analysis of balance sheet

According to the vertical analysis of RAK ceramic's balance sheet, it is observed that the company maintains 71%, 69%, 67%, 65%, and 63% current asset of the total asset in the year 2020, 2019, 2018, 2017 and 2016 respectively. Among the total current assets, the highest portion is the advance tax section. RAK paid 22% to 29% advance tax of total assets. RAK has invested 2% of total assets in associate companies in 2016.

Interpretation of vertical analysis of income statement

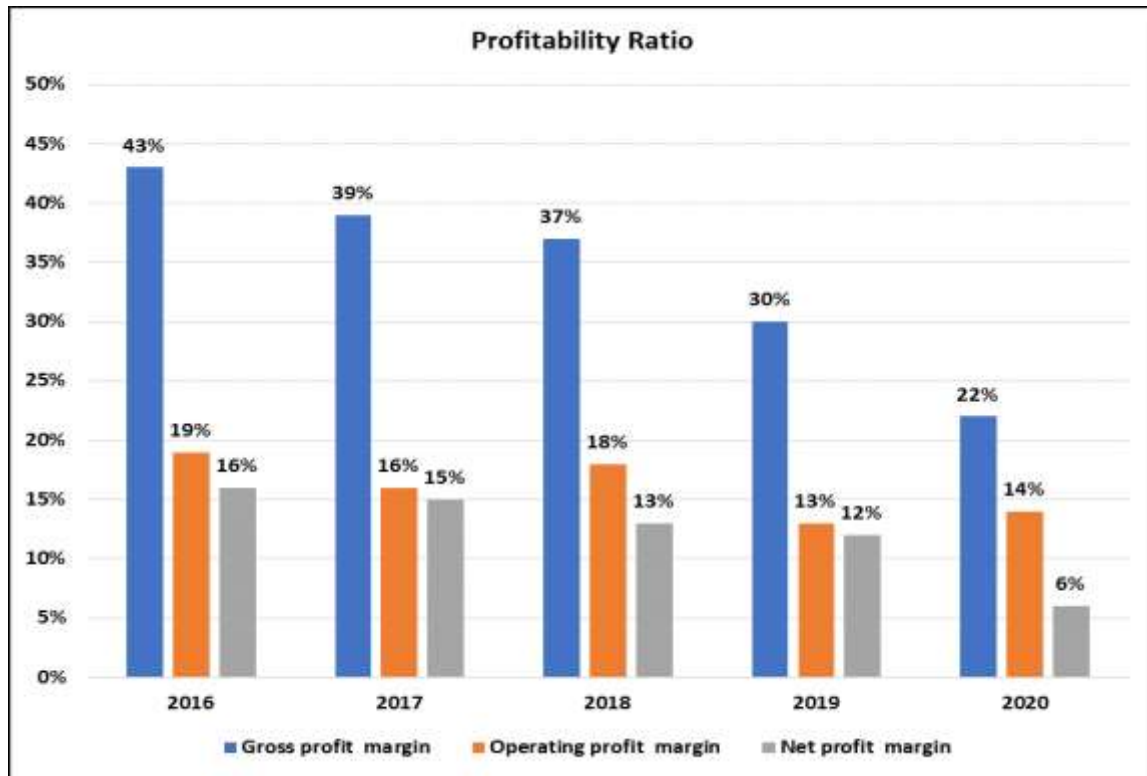
As per the vertical analysis of the RAK ceramics income statement, the company had a cost of sales of 78 percent of total sales in 2020, 70 percent in 2019, 63 percent in 2018, and 61 percent in 2017, and the lowest reduction was in 2016 at 57 percent. Gross profit was 22% to 43% over all the years and in 2020 gross profit was only 22% of total sales. Throughout the years, RAK has decreased net profit in terms of sales each year.

3.4.3. Ratio Analysis of RAK Ceramics

| Ratio \ Year | 2020 | 2019 | 2018 | 2017 | 2016 |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Liquidity or Solvency | | | | | |
| Current Ratio (Times) | 1.67 | 1.71 | 1.66 | 1.59 | 1.63 |
| Quick Ratio (Times) | 1.29 | 1.17 | 1.05 | 1.07 | 1.04 |
| Debt To Equity Ratio | 78% | 73% | 74% | 83% | 83% |
| Cash Conversion Cycle Ratio (Days) | 190.00 | 216.31 | 256.07 | 199.26 | 257.42 |
| Asset Management | | | | | |
| Inventory Turnover | 2.02 | 1.64 | 1.44 | 1.68 | 1.29 |
| Total Asset Turnover | 42% | 51% | 56% | 59% | 51% |
| Days Sales Outstanding (Days) | 70 | 49 | 47 | 31 | 40 |
| Profitability | | | | | |
| Gross Profit Margin | 22% | 30% | 37% | 39% | 43% |
| Operating Profit Margin | 14% | 13% | 18% | 16% | 19% |
| Net Profit Margin | 6% | 12% | 13% | 15% | 16% |
| Investment Valuation | | | | | |
| Return On Total Asset | 2% | 6% | 7% | 9% | 8% |
| Return On Equity | 4% | 10% | 13% | 16% | 15% |
| Return On Invested Capital | -3% | 3% | 4% | 3% | 1% |
| Dividend Payout | 2.04 | 0.51 | 0.40 | 0.66 | 0.92 |
| Earnings Per Share | 0.73 | 1.76 | 2.29 | 2.62 | 2.72 |
| Net Asset Value Per Share | 16.41 | 17.18 | 16.34 | 15.09 | 14.28 |
| Market Cap(BDT) | 11,12 mn | 12,11mn | 16,53mn | 21,22mn | 21,28mn |
| P/E ratio | 35.62 | 16.08 | 16.87 | 18.93 | 18.29 |
| P/S ratio(times) | 2.10 | 1.87 | 2.42 | 3.05 | 3.36 |
| Market value per share (BDT) | 26 | 28.3 | 38.64 | 49.59 | 49.74 |

Table 11: Ratio Analysis Metrics of RAK Ceramics

3.4.3.1. Profitability of RAK Ceramics



Graph 1: Profitability Ratio

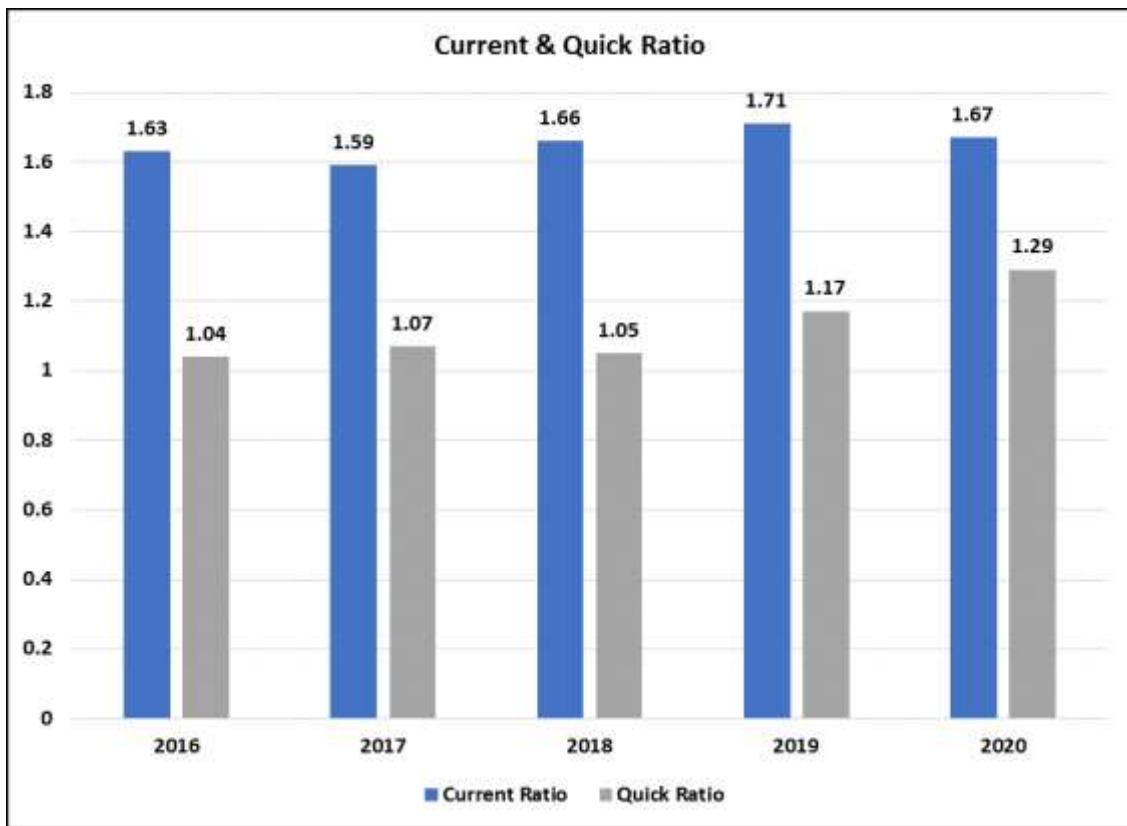
Interpretation: In 2016, every BDT of 100 of sales generated BDT 43 of gross profit and then it is drooping in following years. In 2017, 2018, 2019 and 2020, BDT 100 of sales generated respectively BDT 39, BDT 37, BDT 30 and BDT 22 with a decrease ranging from 43% to 22%. As a result, GPM in 2020 is quite low in comparison to previous years. Furthermore, as compared to the industry average (39.73 percent) over the last five years, RAK (34.2 percent) is underpriced.

Operating profit margin was BDT 19 in every BDT 100 of sales in the year 2016 and decreased in the year 2017 at BDT 16 in every BDT 100 of sales, in 2018 it increased again at BDT 18 and it again decreased at BDT 13 in every BDT 100 of sales. In 2020 it again increased 1% and the operating profit become BDT 14 at every BDT 100 of sales. Operating profit of RAK Ceramic BD's five-year margin fell from 19 percent to 14 percent between 2016 and 2020. Furthermore, the five-year average OPM is 16 percent, which is lower than the industry average of 26.09 percent.

In 2016, every BDT 100 of sales generated BDT 16 of net profit. It decreased to BDT 15, BDT 13, BDT 12, and BDT 6 in the respectively years 2017, 2018, 2019 and 2020. RAK

Ceramic BD's net profit margin has been declining throughout the past five years, ranging from 16 percent to 6 percent. As a result, the GPM for 2020 is extremely low when compared to previous years. The average NPM of RAK over five years is 12.5 percent, which is lower than the industry average of 13.71 percent.

3.4.3.2. Liquidity & Solvency of RAK Ceramics

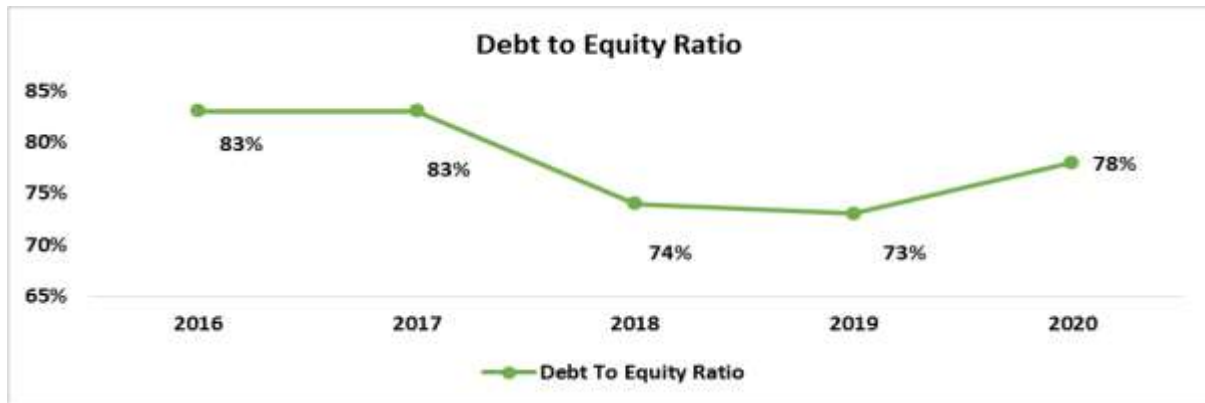


Graph 2: Current Ratio and Quick Ratio

Interpretation: The current assets of RAK Ceramic Bangladesh were 1.63 times of the current liabilities in 2016. In 2017 and 2018, their current assets were 1.59 times and 1.66 times their current liabilities, respectively. In 2019, the company's current asset was 1.71 times while in 2020, it was 1.67 times. The CR range is increasing among 2016 to 2020 at a rate from 1.63 to 1.67. When it compared between 2019 and 2020, the current ratio is decreasing from 1.67 to 1.71. But overall position is good as CR lies between 1.5 and 3 which indicates stable liquidity.

The Quick ratio graph shows that RAK Ceramic Bangladesh's Current asset without inventories (liquid assets) were 1.04 times of their current liabilities in 2016. In 2017 it changes in to 1.07 times and in 2018 it changes decreased by 0.02 and became 1.05 times of

RAK's current liabilities. In 2019 it rises up to 1.17 times and in 2020 RAK has liquid assets reached 1.29 times of their current liabilities. The Quick Ratio for five years of RAK Ceramic Bangladesh is increasing in the range from 1.04 to 1.29 and overall, in last five years the quick ratio was above 1 and in the year 2020 it was highest this indicates a good QR.



Graph 3: Debt to Equity Ratio

Interpretation: RAK Ceramic Bangladesh's debt to equity ratio curves shows that, in 2016 and 2017 were same 83% debt to equity, which means, the company had BDT 83 of debt for every BDT 100 of equity. Therefore in 2018 it minimizes by 9% and became 74% of D/E. Next year in 2019 it minimizes 1% and become 73%. But in the year 2020 debt to equity ratio increased by 5% and become 78% but overall D/E is good as it is under 1.



Graph 4: Cash Conversion cycle

Interpretation: In 2016, it took RAK ceramic BD 257.42 days to convert its initial cash investment into cash from inventory. Days decreased to 199.26 days in 2017, but increased to 256.07 days in 2018. In 2019, it decreased to 216.31 days. It took about 190 days in 2020 to turn its original cash investment into cash from inventory. So, overall RAK has a high CCC ratio throughout five years but in 2020 the CCC ratio is lowest compare to previous years which is better.

3.4.3.3. Asset Management of RAK Ceramics



Graph 5: Inventory Turnover Ratio

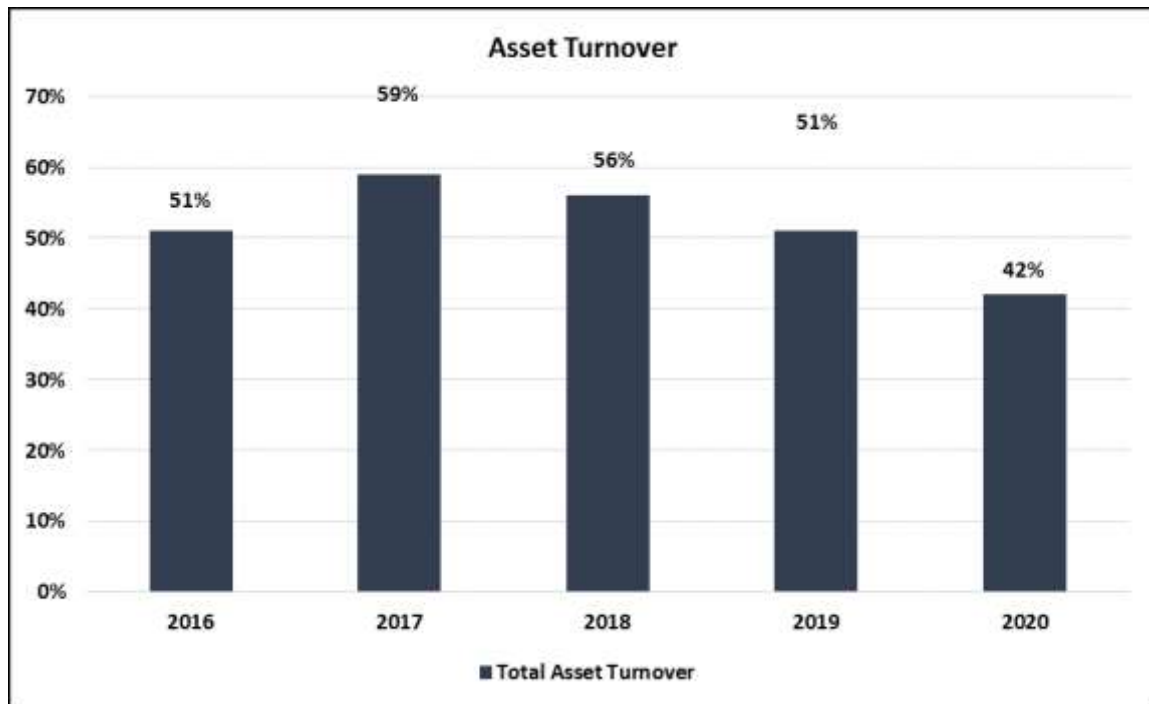
Interpretation: In 2016, RAK Ceramic Bangladesh had sold out and restocked its inventory 1.29 times. In 2017, 2018 and 2019 it had become respectively 1.68 times, 1.44 times and 1.64 times and in 2020, RAK Ceramic had turned over and restocked its inventory 2.02 times. Inventory Turnover ratio for five years of RAK Ceramic BD is rising in the range of 1.21 times to 2.02 times. Moreover, the ideal inventory turnover ratio falls anyplace between 2 and 4. So it can be said that RAK's products have demand in the market as in 2020.



Graph 6: Days Sales Outstanding

Interpretation: In 2016, RAK Ceramic took an average of 40 days to collect receivables from clients. In 2017, it took to collect receivables from consumers was reduced to 31 days. In 2018 and 2019, it took 47 and 49 days to recover receivables, respectively. But, in 2020,

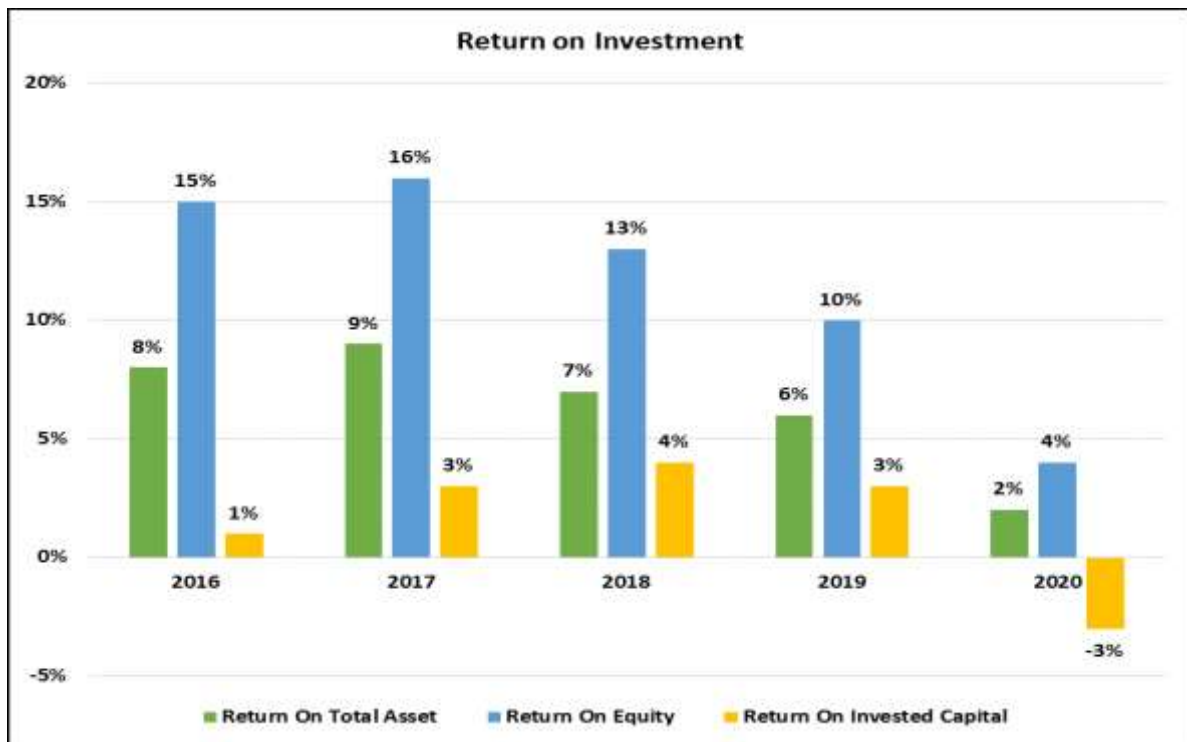
RAK Ceramic Bangladesh's day's sales outstanding or average collection period grew to 70 days on average for collecting receivables from its clients.



Graph 7: Asset Turnover Ratio

Interpretation: According to the graph, every BDT 100 worth of total asset generated BDT 51 in sales in 2016. It rose in 2017, with every BDT 100 worth of total asset generating BDT 59 in sales at the end of the year and the total asset turnover ratio reached its highest point. The next year, it dropped 3%, and RAK Ceramic Bangladesh generated BDT 56 in sales for every BDT 100 in total assets. It declined again over the next two years. In 2019, asset turnover declined by 5%, returning to the 2016 level of BDT 51 in sales for every BDT 100 in total asset. However, by 2020, it became extremely low- asset turnover fell by nearly 9%, resulting in BDT 42 in sales for every BDT 100 in total assets. The overall analysis for the past five years shows that the total Asset turnover ratio has been decreasing since 2017, with the highest decrease of 8% in 2020 compared to 2019.

3.4.3.4. Investment Valuation of RAK Ceramics

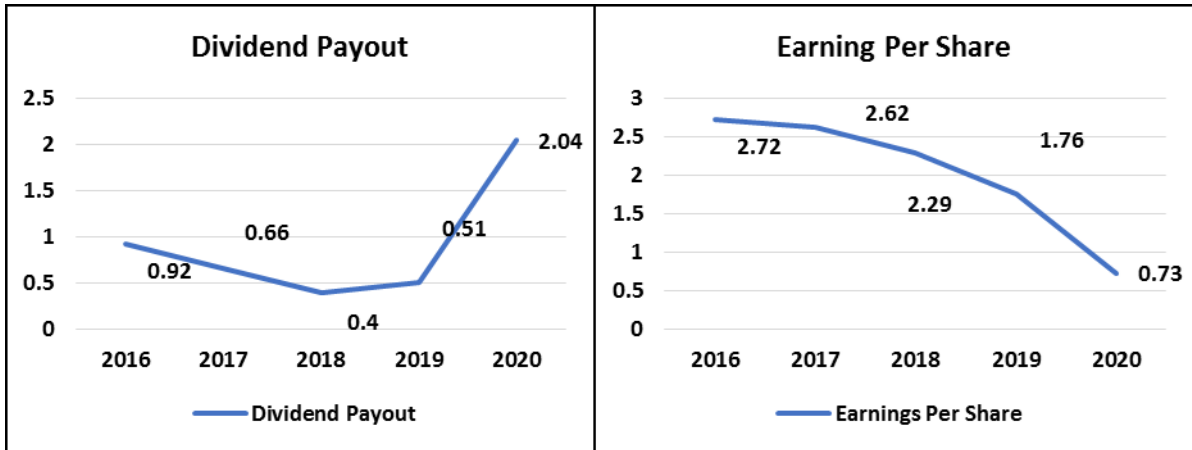


Graph 8: Return on Investment

Interpretation: The graph shows that RAK earns BDT 8 for every BDT 100 in assets in the year 2016. ROA rise in 2017 by 1% but continuously going down on the consecutive years of 2018, 2019, and 2020 follows by 7%, 6%, and 2%. In 2020 ROA is alarming as it less than the 5% and 5% and higher consider as better ROA for a company. On the other hand, the average ROA of last five years is 6.4% which is slightly higher than five years industry average of ROA 6.07%.

In 2016, the common shareholders have earned BDT 15 for every BDT 100 investment into the company. It had increased in 2017 by 1% and become BDT 16 for every BDT 100 of investment. But next three 3 years the ROE again declined and in 2018, 2019, and 2020 the respectively BDT 13, BDT 10, and BDT 4 for every 100 of investment into the RAK Ceramic Bangladesh. Moreover, The 5 year's average of ROE is 11.6% which is less than industry average 12.06%.

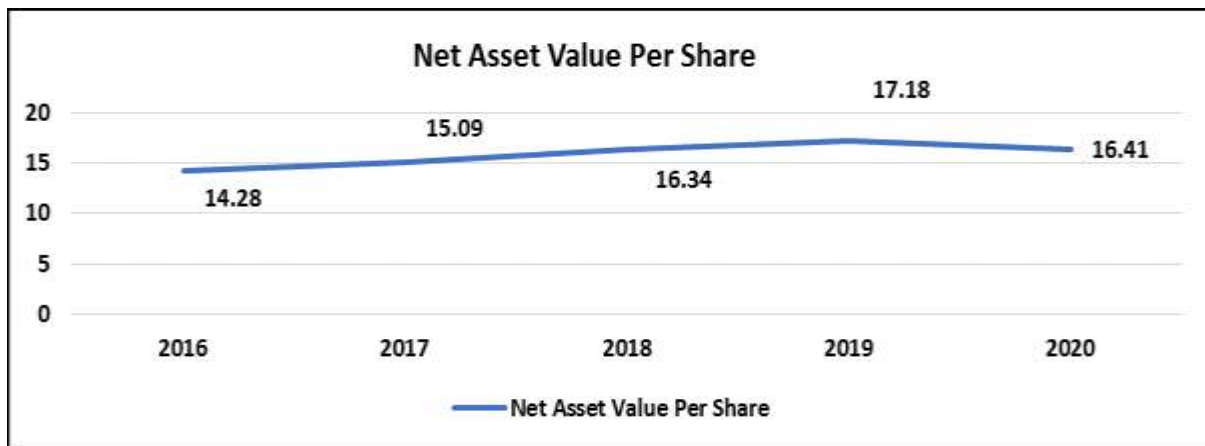
The ROIC graph shows that in 2016 RAK ceramic BD had a 1% return on the investment in every BDT 100 investment. In 2017 and 2018 it maintained its rising to 3% and 4% but in 2019 it again fell to 3%. But in 2020, ROIC has become negative of -3%.



Graph 9: Dividend Payout and Earning per Share

Interpretation: According to RAK Ceramic Bangladesh's Dividend Payout, it appears that it declined in 2017 compared to 2016, from 0.92 to 0.66. Then it decreased again in 2018, before beginning to climb in 2019 and 2020. The biggest dividends were given in 2020 (about 2.04), the second highest in 2016 (around 0.92), and the lowest in 2018 (around 0.4).

In 2016, 2017 and 2018 the common shareholders of RAK Ceramic Bangladesh have earned respectively BDT 2.72, BDT 2.62, and BDT 2.29 per share. In 2019 and 2020 it become less and turns to BDT 1.76 and BDT 0.73 per share.



Graph 10: Net Asset Value per Share

Interpretation: RAK Ceramics Bangladesh's net asset value per share rise 0.81 in the 2017 than 2016 and become 15.09 to 14.18. In 2018 and 2019 it keep up its rising trend to 16.34 and 17.18 but in 2020 it again declined and become 16.41.

Market Capitalization

| Year | 2020 | 2019 | 2018 | 2017 | 2016 |
|------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Share outstanding | 427968701 | 427968701 | 427968701 | 427968701 | 427968701 |
| Market value per Share price | 26 | 28.3 | 38.64 | 49.59 | 49.74 |
| Market cap (BDT) | 11127186226 | 12111514238 | 16536710607 | 21222967883 | 21287163188 |



Graph 11: Market Capitalization of RAK Ceramics Bd

Interpretation: The market capitalization of RAK ceramics decreasing from 2016 to 2020. In 2016 and 2017 Market cap of RAK ceramics BD were BDT 21,287 21,222mn respectively. But it fell in 2018 to BDT1 6,536mn. But the significant fall happened in 2019 and 2020. The market valuation become BDT12, 111mn and BDT 11, 12 mn. Though the market capitalization of RAK shows RAK has market cap upper than 10 billion, it is a mature and well know company in the established ceramics industry of Bangladesh but the range is decreasing year to year.

Price earnings ratio

| Price earnings ratio | | | | | |
|----------------------|-------|-------|-------|--------|-------|
| Year | 2020 | 2019 | 2018 | 2017 | 2016 |
| EPS | 0.73 | 1.76 | 2.29 | 2.62 | 2.72 |
| P/E ratio | 35.62 | 16.08 | 16.87 | 18.937 | 18.29 |

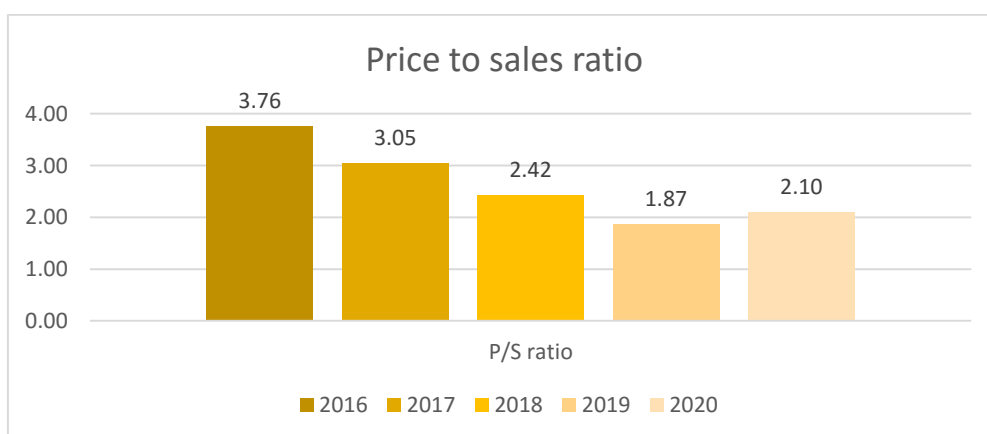


Graph 12: Price earning graph

Interpretation: In 2016 and 2017 the P/E of RAK Ceramics BD was 18.29 and 18.93 respectively. In 2018 and 2017 it fell to 16.87 and 16.08. But in 2020 it increased significantly to 35.62. In 2020, the P/E become very higher than the average P/E 20 to 25. This is not satisfying.

Price to sales ratio

| Price to sales ratio | | | | | |
|----------------------|----------------|----------------|----------------|----------------|----------------|
| Year | 2020 | 2019 | 2018 | 2017 | 2016 |
| Revenue/ Sales | 5288916673 | 6463857312 | 6830783735 | 6956185329 | 5661411578 |
| Market Cap | 11,127,186,226 | 12,111,514,238 | 16,536,710,607 | 21,222,967,883 | 21,287,163,188 |
| P/S ratio | 2.10 | 1.87 | 2.42 | 3.05 | 3.76 |



Graph 13: Price sales Ratio

Interpretation: In 2016 and 2017 the P/E was 3.76 times and 3.05 times respectively. It fell down in 2018 to 2.42 times and in 2019 to 1.87 times. In 2020 increased to 2.10 times.

3.4.3.5. Discounted Cash Flow Method

Required Rate of Return (Ke)

= Risk free rate of return + (Market return – Risk free rate of return) *Market/investment Risk

$$= R_f + (R_m - R_f) \beta$$

In August 2021, the Bangladesh Government Treasury Bond Rate: 10 Years was reported at 4.010 percent pa. This is down from the previous number of 5.250 percent each year in July 2021. Moreover, for nearly a century, the average stock market return has been around 10 percent every year. To consider market risk for RAK ceramics, historical data of October 2021 RAK's in Dhaka Stock exchange has been add.

$$R_f = 0.0401$$

$$R_m = 0.10$$

$$\beta = 0.91$$

$$K_e = R_f + (R_m - R_f) \beta = 0.0401 + (0.10 - 0.0401) * 0.91 = 0.09460 = 9.46 \%$$

Discounted cash flow method

DCF (discounted cash flow) is a technique for estimating the present value of future cash flows. Even this strategy can be applied to calculate the worth of an investment.

| Year | 2020 | 2019 | 2018 | 2017 | 2016 |
|--------------------------------------|--------------|--------|-------|--------|-------|
| Free Cash Flow | 1017.0 | 1308.0 | 242.0 | 1475.0 | 490.0 |
| Cash flow growth | -0.2 | 4.4 | -0.8 | 2.0 | |
| Average free cash flow(2016 to 2020) | 906.4 | | | | |
| CAGR growth rate | 0.16 | | | | |

Let,

For 2021 to 2023 the growth rate = 0.10

For 2024 to 2025, the growth rate = 0.08

And the terminal Growth value = 0.06

Future free cash flow:

Previous free cash flow + (Previous free cash flow* Growth rate for each year)

| 2020.0 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---------|------------------|--------------------|--------------------|--------------------|--------------------|
| 906.4mn | BDT 997.04 mn | BDT 1,096.74 mn | BDT 1,206.42 mn | BDT 1,375.32 mn | BDT 1,485.34 mn |

Present value of Future free cash flow: **Free cash flow/(1+ke)^n**

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| PV of FCFs | BDT 910.87 | BDT 915.37 | BDT 919.88 | BDT 958.03 | BDT 945.26 |
| Total of PV of FCFS= BDT 4,649.41 | | | | | |

PV of terminal after 2026

PV of Free cash flow of 2026 $*(1+g)/(Ke- g) =$ BDT 28,958.70 mn

Total PV of cash flow= Total of PV of FCFs (2021-2025) + PV of Free cash flow of 2026

=BDT 33,608.11 mn

Number of share outstanding= 427.00 mn

Intrinsic value per share = (33,608.11 /427) = BDT 78.71

So the Fair value = BDT 78.71 and Market price is Bdt 51. 30

So RAK Ceramics Bangladesh is trading below fair value by 34%

3.4.4. Findings

- Trend Analysis and vertical analysis indicate that, excessive decreased of 'property, plant, equipment' and 'intangible asset' of RAK had caused a significant decreasing in non-current assets in 2020 but rising in 'cash and equivalent cash' and paying high advance 'income tax' throughout the years are the major reasons behind the current assets is increasing gradually from 2016 to 2020.
- Though the operating expenses is less than the gross profit but excessive increase in the cost of sales of total sales of each year is reducing the overall gross profit gradually from 2016 to 2020 and this caused the decrease of profit after tax and net profit throughout these years.
- Current ratio and Quick ratio of liquidity Analysis shows that, RAK is financially secure in the short-term future. Though D/E ratio fell in 2020 but overall high D/E ratio indicates RAK Ceramic BD has used debt to fund its expansion but shorter CCC in 2020 than 2019 says RAK can use additional money to pay down its outstanding debt.
- After examining RAK's asset management, it was discovered that their inventory management system was steadily becoming more effective, but that increasing asset utilization was not efficient, and the payment collection was becoming longer, creating an issue with smooth cash flow.
- RAK's profitability analysis reveals a downward trend in gross profit, net profit, and operating profit over the last five years, indicating a drop in sales or selling price without a corresponding drop in COGS and operating expenses.
- In 2020 The excessive falling rate of ROA , ROE and ROIC in investment valuation analyze indicates -RAK has over invested in asset that have failed to generated revenue growth as a result entire cost of RAK exceeds the returns or company is destroying it capital. Additionally, RAK paid highest dividend to their shareholders in 2020 but the lower EPS and less growth in NAVPS also indicate to the investors that, the company is in crisis.
- Due to gradually fell in market price of share of RAK, the market capital faced great impact. The high P/E ratio generally indicates the company has overvalued and investors has to pay more to purchase a share of RAK's share and that made investor expect higher earnings. Moreover, in 2021 the required rate of return is less than the expected rate of return.

3.5. Conclusion

Bangladesh's ceramics industry is a flourishing manufacturing sector that has grown tremendously throughout the years. In the previous five years, Bangladesh's ceramics market has seen a 200 percent improvement in productivity. Bangladeshi ceramics may readily compete with the products of its closest competitors China and India in order to ensure quality. RAK holds top ranks in ceramics categories and the brands are quite excellently with clients in Bangladesh, as evidenced by the percentage shows in share of the capital market. As an organization with industry-leading manufacturing capacity that assists the country with vast item requirements and after-sales service.

When looking into RAK Ceramics Bangladesh's financial performance over the last five years (2016 to 2020), it is clear that earnings have decreased by 16.41 percent per year, where the industry's earning increased by 3.6%. Over the five years studied, both trend and vertical analysis reveal a large decline in total sales and a significant increase in cost of sales. Despite a 59 percent reduction in net profit in 2020, the company paid a 10% cash dividend to stockholders. Furthermore, the balance statement reveals that in 2020, RAK paid a greater dividend of BDT 634,047,427 than its net profit of BDT 310,389,756.00, lowering the return on invested capital. ROIC has drop to -3 percent in 2020. Overall and fell in EPS, Market Cap are significant to observed. So, RAK's financial performance has deteriorated from year to year, with 2020 being the most unsatisfactory year.

But in 2020 the unexpected Covid-19 pandemic has thrown worldwide trade, business, and education into disarray, and Bangladesh's economy has been hit hard. Bangladesh has been under a country-wide lockdown since March 26 due to the Covid-19 pandemic, which has resulted in the closure of company's dealers' outlets or stores, the cessation of factory production, supply chain disruption, and a loss in sales.

As RAK is the top brand and maintains good operating system, it has formed a strategic emphasis at the business level to respond to this changing climate already that includes people's safety, critical short-term activities needed to minimize disruption and best position the company for the long-term Hope there initiatives in 2020 will help us achieve better results in 2021.

3.6. Recommendations

- As RAK has a high decrease in total sales, the sales management is to be more dynamics by enriching the product line and improving the qualities with the help of operation management if necessary.
- RAK's cost of sales is higher than its sales, thus the company needs to monitor its cost of products sold and devise a strategy to lower it.
- In 2020 of RAK Ceramics, the non-current asset was decreased at a very high level, so asset management is to be developed to optimize the liquidity, profitability, and turnover position.
- The CCC and DSO of RAK are very high in 2020, RAK should apply strategies to reduce the time.
- To recover from the post-Covid-19 situation, RAK should continue to focus on innovation and sustainability, portfolio mix, and development in existing categories.

References

- Akter, S. (2015). *Internship Report on RAK Ceramics (Bangladesh) Limited*. [http://dspace.bracu.ac.bd:8080/xmlui/bitstream/handle/10361/4230/Internship Report.pdf?sequence=1](http://dspace.bracu.ac.bd:8080/xmlui/bitstream/handle/10361/4230/Internship_Report.pdf?sequence=1)
- Alam, M. S. (2007, August 1). *RAK Final report - PDFCOFFEE.COM*. <https://pdfcoffee.com/rak-final-report-pdf-free.html>
- ANDREW BLOOMENTHAL. (2021, March 19). *Gross Profit Margin Definition, Formula, & Equation*. https://www.investopedia.com/terms/g/gross_profit_margin.asp
- Asset, T. (2021, September 8). *Total asset turnover ratio — AccountingTools*. <https://www.accountingtools.com/articles/what-is-the-total-asset-turnover-ratio.html>
- Ceopedia Management. (n.d.). *Debt management ratio - CEOpedia | Management online*. Retrieved September 26, 2021, from https://ceopedia.org/index.php/Debt_management_ratio
- CFI. (n.d.). *Liquidity Ratio - Overview, Types, Importance, Example*. Retrieved September 26, 2021, from <https://corporatefinanceinstitute.com/resources/knowledge/finance/liquidity-ratio/>
- Company. (n.d.). *Company Profile | RAK Ceramics India | RAK Ceramics*. Retrieved September 26, 2021, from <https://www.rakceramics.com/bangladesh/en-bd/company/#section-company-profile>
- Company, R. A. K. C., Khaimah, R. Al, Ceramics, R. A. K., Company, T., Act, C., Company, T., Ceramics, R. A. K., Company, T., & Ceramics, R. A. K. (2010). *RAK Ceramics Financial Statement (2015)*. 1–30. [http://dspace.bracu.ac.bd:8080/xmlui/bitstream/handle/10361/4230/Internship Report.pdf?sequence=1](http://dspace.bracu.ac.bd:8080/xmlui/bitstream/handle/10361/4230/Internship_Report.pdf?sequence=1)
- Competitive. (n.d.). *Competitive-Advantage-Of-RAK-Ceramics.docx - Competitive Advantage Of RAK Ceramics The ceramics industry is a growing manufacturing sector in Bangladesh | Course Hero*. Retrieved September 26, 2021, from <https://www.coursehero.com/file/63037392/Competitive-Advantage-Of-RAK-Ceramicsdocx/#question>
- Conversion, C. (n.d.). *Cash Conversion Cycle (CCC) Definition & Formula | Taulia*. Taulia. Retrieved September 26, 2021, from <https://taulia.com/glossary/what-is-the-cash-conversion-cycle-ccc/>
- FERNANDO JASON. (2021, August 18). *Current Ratio Definition*. Investopedia. <https://www.investopedia.com/terms/c/currentratio.asp>
- Hayes Adam. (2021, April 9). *Profitability Ratios Definition*. Investopedia. <https://www.investopedia.com/terms/p/profitabilityratios.asp>
- Hero, C. (n.d.). *Corporate Governance Report | RAK Ceramics*. Retrieved September 26, 2021, from <https://www.rakceramics.com/bangladesh/en-bd/investor-relation/corporate-governance/corporate-governance-overview/>

- Hossen, R. (2017). *Financial Analysis of RAK Ceramics Ltd*. https://www.academia.edu/36264659/Financial_Analysis_of_RAK_Ceramics_Ltd
- Jenkins Abby. (2020). *Inventory Turnover Ratio Defined: Formula, Tips, & Examples / NetSuite*. Oracle Netsuite. <https://www.netsuite.com/portal/resource/articles/inventory-management/inventory-turnover-ratio.shtml>
- Management, A. (n.d.). *Asset management (turnover) ratios*. Retrieved September 26, 2021, from <https://www.readyratios.com/reference/asset/>
- Marketing. (n.d.). *Marketing Strategies of RAK Ceramics Limited - Assignment Point*. Retrieved September 26, 2021, from <https://www.assignmentpoint.com/business/marketing-business/marketing-strategies-of-rak-ceramics-limited.html>
- Mashkour, S. C. (2020). Analysis Of Prof . Dr . Saoud Chayed Mashkour Alamry Muthanna University First Edition. *Analysis of Financial Statements, January*, 1–208. https://www.researchgate.net/publication/338385318_ANALYSIS_OF_FINANCIAL_STATEMENTS
- Overview | RAK Ceramics*. (n.d.). Retrieved September 26, 2021, from <https://www.rakceramics.com/bangladesh/en-bd/investor-relation/corporate-governance/corporate-governance-overview/>
- Report, R. annual. (2020). *la nk c om nk c*.
- Seth Shobhit. (2021, March 31). *Quick Ratio Definition*. Investopedia. <https://www.investopedia.com/terms/q/quickratio.asp>
- Will Kenton. (2021, July 25). *Days Sales Outstanding (DSO) Definition*. Investopedia. <https://www.investopedia.com/terms/d/dso.asp>
- ANDREW BLOOMENTHAL. (2021, March 19). Gross Profit Margin Definition, Formula, & Equation. https://www.investopedia.com/terms/g/gross_profit_margin.asp
- Asset, T. (2021, September 8). Total asset turnover ratio — AccountingTools. <https://www.accountingtools.com/articles/what-is-the-total-asset-turnover-ratio.html>
- Ceopedia Management. (n.d.). Debt management ratio - CEOpedia | Management online. Retrieved September 26, 2021, from https://ceopedia.org/index.php/Debt_management_ratio
- CFI. (n.d.). Liquidity Ratio - Overview, Types, Importance, Example. Retrieved September 26, 2021, from <https://corporatefinanceinstitute.com/resources/knowledge/finance/liquidity-ratio/>
- Conversion, C. (n.d.). Cash Conversion Cycle (CCC) Definition & Formula | Taulia. Taulia. Retrieved September 26, 2021, from <https://taulia.com/glossary/what-is-the-cash-conversion-cycle-ccc/>
- FERNANDO JASON. (2021, August 18). Current Ratio Definition. Investopedia. <https://www.investopedia.com/terms/c/currentratio.asp>
- Hayes Adam. (2021, April 9). Profitability Ratios Definition. Investopedia.

<https://www.investopedia.com/terms/p/profitabilityratios.asp>

Jenkins Abby. (2020). Inventory Turnover Ratio Defined: Formula, Tips, & Examples | NetSuite. Oracle Netsuite. <https://www.netsuite.com/portal/resource/articles/inventory-management/inventory-turnover-ratio.shtml>

Seth Shobhit. (2021, March 31). Quick Ratio Definition. Investopedia. <https://www.investopedia.com/terms/q/quickratio.asp>

Will Kenton. (2021, July 25). Days Sales Outstanding (DSO) Definition. Investopedia. <https://www.investopedia.com/terms/d/dso.asp>