**Virtual University of Pakistan**

**Evaluation Sheet for Project**  
*Spring 2011*

FIN619: Final Project (Finance)

<table>
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Student’s Name: Wasif Pervaiz Dar  
Student’s ID: mc090403897
**Good Attempt**

Some deficiencies in your project work have been highlighted along with guidelines. You are going to give permission to prepare presentation with this condition that you present improved work in your presentation & viva voce as per given instructions.

**Start preparing for presentation & viva voce and improve your work. Also read lesson # 7 of this course**

**Your conclusion & recommendations must be strong as panel will not be lenient at these sections.**
Following guidelines will help you out during presentation in order to defend your work by delivering effective analysis of ratios

Subject: Guidelines for Interpretation of Ratios

The following guidelines will help you to understand what interpretation means and how it should be done.

What does interpretation of ratios mean?
Interpretation means explanation of the ratios results. It does not mean definition of ratios rather it should enable the readers to understand what the calculated ratio indicates and what the trend for that particular ratio is. It should cover four steps:

Step # 1) Result understanding: i.e. what does the answer derived from ratio calculation indicates? You have to critically analyze the result of calculated ratio by explaining the relationship of numerator with that of a denominator.

Step #2) Trend Analysis: i.e. what are the variations in a company’s ratio results i.e. the trend for the same company and the reasons for that change in trend? All three selected companies should be analyzed in this way.

Step #3) Comparison: i.e. among the three selected companies which company is leading/ taking edge and why?

Step #4) Bench mark (if applicable): i.e. the comparison of ratio with the benchmark/rule of thumb/standard of that ratio in that particular industry (as these standards vary according to the type of industry selected for analysis e.g. Manufacturing, Banking, FMCG companies, etc). Also give reasoning of deviation from that standard.

You have to strictly interpret the calculated ratios in the way described above step wise.
Final Project

Activity Ratio Analysis of Fauji Fertilizer Co. Limited, Fauji Fertilizer Bin Qasim Limited and Dawood Hercules Limited in Fertilizer Sector for FY 2008-2010

A REPORT
SUBMITTED TO THE DEPARTMENT OF MANAGEMENT SCIENCES,
VIRTUAL UNIVERSITY OF PAKISTAN
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION

Submitted By
mc090403897
Wasif Pervaiz Dar
Virtual University of Pakistan

Department of Management Sciences,
Virtual University of Pakistan
LETTER OF UNDERTAKING

I, Wajie Pervaiz Bak, student VU ID: M2000493777, hereby confirm that the project I have provided is solely my own effort. I did not copy my report partially or completely from any other student or from any other source either against payment or free and I did not provide any plagiarized material in any section of my report. I further confirm that the documents (Job Confirmation Letter, etc.) that I have provided are genuine (i.e. not forged/fake) and have been issued by the authorized person in the organization. If I am found guilty of misstating, misleading or concealing the facts about my activities (either academic or non-academic but relevant to this course) at any stage, the university is authorized to take disciplinary action against me according to university policies and regulations.

I hereby also confirm that I have carefully read and understood all the guidelines, rules and regulations provided by the course instructor on VULMS. I assure that I will follow the instructions regarding presentation & viva voce and will appear on the scheduled date for presentation & viva voce which will be intimated to me at my VU-email ID by the Course Instructor. In case of any negligence, I shall be held responsible.

Name: Wajie Pervaiz Bak
Signature: ____________________
Date: 10-06-2011
DEDICATION

I would like to dedicate this project to my parents, my elder brother and my cousin Wasim Zafar Dar who have supported me during the journey of my MBA studies and whose encouragement has enabled me to submit this project.

I also dedicate it to my wife that is a great source of encouragement and motivation for me.
ACKNOWLEDGEMENT

IN THE NAME OF ALLAH, THE MOST MERCIFUL, THE MOST KIND

Firstly I am very thankful and obliged to my GOD. GOD blessing me a lot and give me the strength, hope and cool calm temperament that keep me alive my thinking and my motivation to complete the project in a very short and tight period of time. Without my ALLAH blessing it is not possible for me to complete this project in time. I am very thankful to my ALLAH.

I would also like express my sincere and deep thankfulness to my parents, brother, my cousin, my internet fellows and Google.com as well. They all are support me a lot in moral sense and technical aspects as well. My parents, brother and my cousin keep motivating me. My internet class fellow and Google.com support, guide and help me in technical grounds.

Further, I would also like to mention and express my very special gratitude to my wife who keep motivating me, boost my morale, give me the confidence and pray for me for the in time completion of this project.
EXECUTIVE SUMMARY

This Project is about to conduct Activity ratio analysis of the three companies listed in the country stock exchange in a similar sector. The sector from which the sample of three companies are taken is a fertilizer sector and the companies that will under study in this project of activity ratio analysis for the financial period of 2008, 2009 and 2010 are the followings

1. DAWOOD HERCULES LTD.
2. FAUJI FERTILIZER CO. LTD.
3. FAUJI FERTILIZER BIN QASIM LTD.

The main objective of the project is to analyze the activity position of the selected companies and to know about the fact that which company is effectively managing and utilize its assets. The project analysis is being done as a compulsory requirement of MBA – Finance and also for the stakeholders, general readers and students as well.

Project analysis is planned and designed in a tabular and graphical form supported with necessary working and the interpretation. Different sites, books and articles are consulted to complete this project; references are mentioned at the end of this project under the heading of Bibliography.
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CHAPTER – 1
INTRODUCTION

1 – Introduction of the Project:

Pakistan’s economy is an agricultural based and its importance is well established in the country. It plays an important and vital role in the growth of the economy, its activity, generating revenues/foreign exchange and in the development of the industrial sector of the country. It provides raw material to the industrial sector of the country like sugar, cotton, textile, foods, jute, tobacco and other industries and regarded as a backbone of the Pakistan’s economic activity. It is contributed almost 21% of the Pakistan’s GDP and employs about 41% of the total labor force.

Fertilizers have played an important role in the growth and development of the agricultural sector especially to meet the growing demand of the food and to achieve the self-sufficiency level. Keeping the importance of fertilizer sector in my mind, I have choose fertilizer sector from which top 3 listed companies have been selected for my project of Activity Ratio Analysis and these companies are

- Fauji Fertilizer Co. Ltd.
- Fauji Fertilizer Bin Qasim Limited
- Dawood Hercules Chemical Limited

Now, I would like to briefly introduce the selected companies and their business activities

**FAUJI FERTILIZER CO. LTD.**

Fauji Fertilizer Company Limited (FFC) is Pakistan’s leading urea manufacturing company with over 60% market share. It is principally engaged in the production, purchasing, and marketing of fertilizers and chemicals. It offers ammonia/urea under
the brand name ‘Sona’, as well as nitrogen, phosphate, and potash based fertilizers with a vision to acquire self-sufficiency in fertilizer production in the country, FFC was incorporated in 1978 as a private limited company. This was a joint venture between Fauji Foundation (a leading charitable trust in Pakistan) and Haldor Topsoe A/S of Denmark.

The initial share capital of the company was 813.9 Million Rupees. The present share capital of the company stands above Rs. 8.48 Billion. Additionally, FFC has more than Rs. 8.3 Billion as long term investments which include stakes in the subsidiaries FFBL, FFCEL and associate FCCL.

VISION STATEMENT

FFC's vision for the 21st Century remains focused on harmonizing the Company with fresh challenges and encompasses diversification and embarking on ventures within and beyond the territorial limits of the Country in collaboration with leading business partners.

MISSION STATEMENT

FFC is committed to play its leading role in industrial and agricultural advancement in Pakistan by providing quality fertilizers and allied services to its customers and given the passion to excel, take on fresh challenges, set new goals and take initiatives for development of profitable business ventures.
FAUJI FERTILIZER BIN QASIM LTD.

Fauji Fertilizer Bin Qasim Limited Plant site is a modern Granular Urea and Di-Ammonium Phosphate (DAP) fertilizers manufacturing complex, built at a cost of US$ 468 Million and located in Eastern Zone of Bin Qasim, Karachi, with Head Office at Harley Street, Rawalpindi.

Initially named as FFC-Jordan Fertilizer Company (FJFC), w.e.f 17th Nov 1993, with FFC (30%), FF (10%) and JPMC (10%) as main sponsors. The company was formally listed with stock exchanges in May 1996 and commercial production commenced w.e.f. Jan 2000. However, it continued to run in crises due to technical, financial and managerial reasons till 2001. DAP Plant brought to suspension in 2001 due to accumulated loss of Rs. 6.5 Billion. It resumed production in Sep 2003, after a lapse of 2 years.

Renamed as Fauji Fertilizer Bin Qasim Ltd. (FFBL) in 2003, as such Jordan Phosphate Mines Co. (JPMC) had sold its entire equity in the company. Accordingly Phosphoric acid supply agreement with Jordan was terminated. The company turned out to be profitable after 3 years i.e, by 2004 and declared 'maiden dividend' in 2004. Profitability has constantly been on the rise since then and 2007 has been the most profitable year of the company. One of the milestones in the success of FFBL is its
accreditation of ISO certification, which was achieved in Mar 2006 for both the Head Office and Plant site

VISION STATEMENT

To be a premier organization focused on quality and growth, leading to enhanced stakeholders value.

MISSION STATEMENT

FFBL is committed to remain amongst the best companies by maintaining the spirit of excellence through sustained growth rate in all activities, competitive price, quality fertilizer and providing safe and conducive working environment for the employees.

DAWOOD HERCULES CHEMICALS LIMITED

Dawood Hercules Chemicals Limited was incorporated as a public limited company on 17th April 1968, as a joint venture between Dawood Group of Industries and Hercules Inc. USA. It was the first private sector venture in Pakistan to receive a loan from the World Bank and was the largest ammonia/urea plant in country at that time. Initially the plant's capacity was 345,000 metric tons of urea per annum. The plant was revamped in 1989 / 1991 to enhance the capacity to
445,500 metric tons of urea per annum. Also, it made the manufacturing facilities more energy efficient and environment friendly. In recent years, Dawood Hercules has made a colossal investment to incorporate the latest technology; the most significant are the construction of new Prilling tower in a record time; the tallest industrial structure in Pakistan, replacement of Primary Waste Heat Exchanger, Primary Reformer Harps Assemblies and conventional instrumentation (with Distributed Control System).

VISION STATEMENT

To excel in the fertilizer and allied business at national and international level by maintaining highest standards of product quality thereby playing our role in the development of the country's economy and adding value to the shareholders' investment.

MISSION STATEMENT

To offer consistent dividends to the shareholders.
To chalk out a plan to improve production techniques and quality standards.
To provide career grooming opportunities to the talented professionals.
To become a good corporate citizen.
To develop long-term relationship with the employees.
To create high performing Organizational Environment in which ideas are generated and nurtured.
To inculcate honest and ethical behavior.
To create safe, healthy environment and friendly atmosphere for the employees.
To improve quality of life for the employees.
To make the farmer community prosper.
1.1 – Financial Period Under-Consideration for Analysis

Following financial periods are considered and under-consideration for the Project Analysis.

- 2008
- 2009
- 2010

1.2 – Objectives

Ratio analysis is an integral part of the financial statement analysis and it is most widely and powerful tool used to analyze the companies financial statements. The main objective of ratio analysis is to deeply analyze the information provided in the financial statements and present meaningful results in terms of liquidity, solvency, activity and profitability of the company in a relative form.

Here in this project, I will just remain focus and limit my research to the extent of the Activity ratio which is used to asses, how quickly a company turnover their assets into sales or cash. Companies are invested their capital in various assets to generate revenues and earn incomes and those managed their assets smartly usually achieve larger amount of sales and profits as well.

Hence, the main objective of the project is to facilitate all the stakeholders especially the investors and bankers to evaluate the three listed companies’ ability that how effectively and efficiently they manage their operations and resources/assets and to know the activity position of the selected companies. This Project will also state the reasons that why the companies are able and not able to manage their assets effectively. The Project will also enable the investors and the other stakeholders to
make the decision that which one is better to invest, safe and having great potential to grow as compared to the rest of the two companies in a similar sector.

1.3 – Significance

The project will provide very significant, rich and valuable information for all the stakeholders, financial analysts and the students as well. Study of the project will become enable to identify the companies’ past and current performance with respect to the management of their resources and further will lead them to paint the future growth of the selected companies on the bases of the facts, figures and analysis provided in the project within the limit of activity ratio.

This project will give them solid analysis in a graphical and tabular form with an interpretation and conclusion drawn on bases of facts and figures and allow them to take decision that which company is better to invest and less riskier as compared to the other two selected companies in a fertilizer sector.
CHAPTER – 2
DATA PROCESSING & ANALYSIS

2.1 – Data Collection Sources
2.1.1 – Primary Sources

This project is based upon the secondary sources of data and logic is that annual reports or companies’ statements are treated as secondary source of data and the whole project is based on companies’ annual reports and financial statements.

2.1.2 – Secondary Sources

Companies’ annual accounts report and their official sites has been consulted and used as a secondary source to collect the basic and necessary information like financial statements, company profile, introduction, business activity, and their vision and mission statements.

Articles, books, stock exchange, brokers and different sites has also been considered as secondary source available on the internet or in a physical form to collect the raw data and information as much as possible on the topic selected in order to get a nice and comprehensive shape of the project.

2.2 – Data Processing & Analysis

Following tools and softwares will be used to process the raw data and then analyze it properly in a given format.

- MS Word
- MS Excel
CHAPTER – 3
DATA ANALYSIS

This Project is about to perform ACTIVITY RATIO ANALYSIS of the selected companies for the financial year 2008, 2009 and 2010.
Following ratios are calculated to complete the Project Analysis.

- Accounts Receivable Turnover
- Average Collection Period
- Accounts Payable Turnover
- Average Payment Period
- Inventory Turnover
- Average Age of Inventory
- Total Assets Turnover
- Fixed Assets Turnover
- Operating Cycle
ACCOUNTS RECEIVABLE TURNOVER

Accounts receivables turnover ratio is used to measure the efficiency of the company in extending credit to their clients as well as the collection of debts from them. Account receivables turnover ratio is an activity ratio and is used to measure, how efficiently a company uses their debtor accounts.

Formula

\[
\text{Accounts Receivable Turnover} = \frac{\text{Annual net credit sales}}{\text{Average accounts receivable}}
\]

Tabular Representation

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Year 2008</th>
<th>Year 2009</th>
<th>Year 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAWH</td>
<td>7,428,702,879 / 6,781,875</td>
<td>11,040,361,936 / 1,117,41</td>
<td>8,715,711 / 6,080</td>
</tr>
<tr>
<td>FFBL</td>
<td>26,820,812 / 264,603</td>
<td>36,724,920 / 381,091</td>
<td>43,256,712 / 653,357</td>
</tr>
<tr>
<td>FFC</td>
<td>30,592,806 / 1,109,266</td>
<td>36,163,174 / 376,408</td>
<td>44,874,359 / 307,421</td>
</tr>
</tbody>
</table>

WORKING

Average Accounts Receivables = (Opening Accounts Receivables + Closing Accounts Receivables)/2

DAWH

2008 - Average Accounts Receivables = (4,742,483 + 8,821,267)/2 = 6,781,875
2009 - Average Accounts Receivables = (8,821,267 + 10,028,308)/2 = 9,424,788
2010 - Average Accounts Receivables = (10,028 + 2,131)/2 = 6,080

FFBL

2008 - Average Accounts Receivables = (243,751 + 285,454)/2 = 264,603
2009 - Average Accounts Receivables = (285,454 + 476,728)/2 = 381,091
2010 - Average Accounts Receivables = (476,728 + 829,985)/2 = 653,357
FFC

2008 - Average Accounts Receivables = (1,722,602 + 495,929)/2 = 1,109,266
2009 - Average Accounts Receivables = (495,929 + 256,886)/2 = 376,408
2010 - Average Accounts Receivables = (256,886 + 357,956)/2 = 307,421

GRAPHICAL REPRESENTATION/TREND ANALYSIS

Accounts Receivable Turnover Ratio

![Bar Chart]

INTERPRETATION

The accounts receivables turnover ratio for the year 2008, 2009 and 2010 of DAWH, FFBL and FFC are 1095.38, 1171.41, 1433.51, 101.36, 96.37, 66.21, 27.58, 96.07 and 145.97 respectively. High debtor turnover ratio is considered as good and the logic is that either the company is trying to operate on cash bases or its credit policy or collection from the debtors is efficient. The above graph and table shows that DAWH have the greatest ratio among the selected companies and its sales are more liquid then the other two companies. Moreover, DAWH have to face low risk of bad debts as compared to the others companies. You are required to perform complete analysis, why the receivable turnover is very low for other companies as compared to DAWH? Whether the situation is unfavourable for other two companies and why?
AVERAGE COLLECTION PERIOD

Average collection period ratio is used to determine the average number of days required to convert account receivables/debtors into cash.

Formula

\[
\text{Average Collection Period} = \frac{365}{\text{Turnover} \times \text{Receivable Accounts}}
\]

Tabular Representation

Why you did not mention the unit here

Gave you some examples below. So properly mention the result for each year along with proper unit

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Year 2008</th>
<th>Year 2009</th>
<th>Year 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAWH</td>
<td>365 / 1095.38 = 0.33 days</td>
<td>365 / 1171.41 = 0.31</td>
<td>365 / 1433.51 = 0.25</td>
</tr>
<tr>
<td>FFBL</td>
<td>365 / 101.36 = 3.60</td>
<td>365 / 96.37 = 3.79</td>
<td>365 / 66.21 = 5.51</td>
</tr>
<tr>
<td>FFC</td>
<td>365 / 27.58 = 13.23 days</td>
<td>365 / 96.07 = 3.78</td>
<td>365 / 145.97 = 2.50</td>
</tr>
</tbody>
</table>

WORKING

There is no need of working.
GRAPHICAL REPRESENTATION/TREND ANALYSIS

Average Collection Period Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>DAWH</th>
<th>FFBL</th>
<th>FFC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>0.33</td>
<td>0.31</td>
<td>0.25</td>
</tr>
<tr>
<td>2009</td>
<td>0.31</td>
<td>0.25</td>
<td>3.79</td>
</tr>
<tr>
<td>2010</td>
<td>13.23</td>
<td>3.78</td>
<td>2.50</td>
</tr>
</tbody>
</table>

INTERPRETATION

The average collection period ratio for the year 2008, 2009 and 2010 of DAWH, FFBL and FFC are 0.33, 0.31, 0.25, 3.60, 3.79, 5.51, 13.23, 3.78 and 2.50 respectively. Low collection period ratio is considered as good but it should also be decreasing as compared to the past year. Here the above analysis shows that DAWH and FFC ratios are decreasing as compare to their last period whereas in the case of FFBL it is being increased and FFBL has to face high interest cost along with the risk of bad debts. In the comparison of DAWH and FFC, the DAWH is on the top of the list. Their ratios are not only decreasing but also very low as compare to the others.

Why FFBL is not able to manage the collection period? What are the deficiencies?
ACCOUNTS PAYABLES TURNOVER RATIO

Accounts payable turnover ratio is used to measure the rate of credit period that the company enjoys from their suppliers. Account payable turnover ratio is an activity ratio and is used to measure, how well a company uses its creditor accounts.

**Formula**

\[
\text{Accounts Payables Turnover} = \frac{\text{Credit Purchase}}{\text{Average Accounts Payable}}
\]

**Tabular Representation**

*Mention properly the unit of ratio*

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Year 2008</th>
<th>Year 2009</th>
<th>Year 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAWH</td>
<td>2,352,484,270 / 124,972,969 = 18.82</td>
<td>4,802,826,560 / 159,686,708 = 30.08</td>
<td>2,794,454 / 231,222 = 12.09</td>
</tr>
<tr>
<td>FFBL</td>
<td>34,788,687 / 16,950,151 =</td>
<td>16,950,151 /</td>
<td>23,578,057 /</td>
</tr>
</tbody>
</table>
Average Accounts Payables = (Opening Accounts Payables + Closing Accounts Payables)/2

You were required to mention proper note number here e.g. for FFBL in 2010, you have taken figure from note # 10 so you were required to mention that.

DAWH

2008 - Average Accounts Payables = (196,636,470 + 53,309,468)/2 = 124,972,969
2009 - Average Accounts Payables = (53,309,468 + 266,063,948)/2 = 159,686,708
2010 - Average Accounts Payables = (266,064 + 196,379)/2 = 231,222

FFBL

2010- Creditor = 3,995,077 (note # 10)
2008 - Average Accounts Payables = (1,048,909 + 4,571,018)/2 = 2,809,964
2009 - Average Accounts Payables = (4,571,018 + 2,949,346)/2 = 3,760,182
2010 - Average Accounts Payables = (2,949,346 + 3,995,077)/2 = 3,472,212

FFC

2008 - Average Accounts Payables = (428,757 + 313,505)/2 = 371,131
2009 - Average Accounts Payables = (313,505 + 435,463)/2 = 374,484
2010 - Average Accounts Payables = (435,463 + 413,062)/2 = 424,263

WORKING - 2

DAWH

Net Credit Purchases = Raw Material Purchases + Finished Goods Purchases

2008 - Net Credit Purchases = 1,613,017,850 + 739,466,420 = 2,352,484,270
2009 - Net Credit Purchases = 1,704,467,471 + 3,098,359,089 = 4,802,826,560
2010 - Net Credit Purchases = 1,576,627 + 1,217,827 = 2,794,454

FFBL
Following amounts especially of “Finished goods purchased” are not mentioned in statements of CGS, how have you calculated these?

How did you calculate closing and opening raw inventory because in statement of CGS it is zero for 2009 & 2010

Net Credit Purchase = Finished Goods Purchase + (Raw Material Consumed + Closing Raw Inventory – Opening Raw Inventory) + (Packing Material Consumed + Closing Packing Inventory – Opening Packing Inventory)

2008 - Net Credit Purchases = 118,144 + (34,409,318 + 26,829 – 289,809) + (492,509 + 62,848 – 31,152) = 34,788,687

2008 - Net Credit Purchases = 1,325,244 + (15,518,409 + 1,033,875 – 26,829) + (470,472 + 17,072 – 62,848) = 16,950,151

2008 - Net Credit Purchases = 3,709,917 + (23,045,884 + 907,024 – 1,033,875) + (590,542 + 85,554 – 17,072) = 23,578,057

FFC

Make it clear that how did you calculate closing and opening stock because in statement of CGS it is zero for 2009 & 2010

Net Credit Purchase = Finished Goods Purchase + (Raw Material Consumed + Closing Raw Inventory – Opening Raw Inventory)

2008 - Net Credit Purchases = 2,056,360 + (6,349,067 + 112,870 – 66,350) = 8,451,947

2008 - Net Credit Purchases = 1,325,244 + (7,509,129 + 33,548 – 12,870) = 8,755,051

2008 - Net Credit Purchases = 3,709,917 + (8,018,574 + 78,036 – 33,548) = 11,772,979

GRAPHICAL REPRESENTATION/TREND ANALYSIS
INTERPRETATION

The accounts payable turnover ratio for the year 2008, 2009 and 2010 of DAWH, FFBL and FFC are 18.82, 30.08, 12.09, 12.38, 4.51, 6.79, 22.77, 23.38 and 27.75 respectively. Low creditors turnover ratio is considered as good but it should also be decreasing. Graph and tabular analysis shows that the ratios of FFBL and DAWH are low and decreasing with flow of time whereas it is opposite with FFC. It means FFBL and DAWH enjoy good credit from their suppliers and they have to pay their bills after a long time as compare to FFC which will help to improve the liquidity position of the company. Here FFBL is on the top as against the other two companies as their ratios are very low and decreasing in the selected group.

AVERAGE PAYMENT PERIOD
Average payment period ratio is used to determine the average number of days required to pay its account payables/creditors.

**Formula**

Average Payment Period = \( \frac{365}{\text{Accounts Payable Turnover}} \)

**Tabular Representation**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Year 2008</th>
<th>Year 2009</th>
<th>Year 2010</th>
</tr>
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<tbody>
<tr>
<td>DAWH</td>
<td>365 / 18.82 = 19.39</td>
<td>365 / 30.08 = 12.13</td>
<td>365 / 12.09 = 30.19</td>
</tr>
<tr>
<td>FFBL</td>
<td>365 / 12.38 = 29.48</td>
<td>365 / 4.51 = 80.93</td>
<td>365 / 6.79 = 53.76</td>
</tr>
<tr>
<td>FFC</td>
<td>365 / 22.77 = 16.03</td>
<td>365 / 23.38 = 15.61</td>
<td>365 / 27.75 = 13.15</td>
</tr>
</tbody>
</table>

**WORKING**

There is no need of working.

**GRAPHICAL REPRESENTATION/TREND ANALYSIS**
INTERPRETATION

The average payment period ratio for the year 2008, 2009 and 2010 of DAWH, FFBL and FFC are 19.39, 12.13, 30.19, 29.48, 80.93, 53.76, 16.03, 15.61 and 13.15 respectively. High average payment period ratio is considered as good but it should also be increasing. FFBL is on top here again as the creditor turnover ratio is low in group hence FFBL is enjoying longest credit period offered by their supplier and it will help to save the interest expense as well and give them a room to improve the cash position or hold inventory or can use to extend the credit to their clients.

It is right that FFBL is best among all in payment policy but properly analyze payment period in comparison with collection period. DAWH collection period is less in 2008 & 2010 as compared to its payment period which is not a good sign. So, how company be able to cover this situation in 2010? But FFC is having high payment period in all years as compared to its collection period, so what consequences company have in such situation and how it can improve the situation?
INVENTORY TURNOVER RATIO

Inventory Turnover Ratio indicates how well a company utilizes and manages its inventory. This ratio is used to measure the number of times a company sells its inventory during the period.

Formula

\[
\text{Inventory Turnover} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}
\]

Tabular Representation

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Year 2008</th>
<th>Year 2009</th>
<th>Year 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAWH</td>
<td>4,312,462,959 / 478,539,402 = 9.01</td>
<td>7,080,456,675 / 86,426,958 = 81.92</td>
<td>5,214,376 / 149,701 = 34.83</td>
</tr>
<tr>
<td>FFBL</td>
<td>18,594,752 / 3,132,343 = 5.94</td>
<td>27,059,566 / 3,451,876 = 7.84</td>
<td>29,793,541 / 1,248,840 = 23.86</td>
</tr>
</tbody>
</table>
WORKING

Average Inventory = (Opening Inventory + Closing Inventory)/2

DAWH

2008 - Average Inventory = (867,510,588 + 89,568,216)/2 = 478,539,402
2009 - Average Inventory = (89,568,216 + 83,285,699)/2 = 86,426,958
2010 - Average Inventory = (83,285 + 216,117)/2 = 149,701

FFBL

2008 - Average Inventory = (587,946 + 5,676,739)/2 = 3,132,343
2009 - Average Inventory = (5,676,739 + 1,227,013)/2 = 3,451,876
2010 - Average Inventory = (1,227,013 + 1,270,667)/2 = 1,248,840

FFC

2008 - Average Inventory = (642,836 + 258,094)/2 = 450,465
2009 - Average Inventory = (258,094 + 144,087)/2 = 201,091
2010 - Average Inventory = (144,087 + 211,720)/2 = 177,904

GRAPHICAL REPRESENTATION/TREND ANALYSIS
INTERPRETATION

The Inventory turnover ratio for the year 2008, 2009 and 2010 of DAWH, FFBL and FFC are 9.01, 81.92, 34.83, 5.94, 7.84, 23.86, 40.48, 102.02 and 142.27 respectively. High inventory turnover ratio is considered as good and the logic is that company is efficiently managing and selling its inventory. Here FFC stand as top in his group as graph and tabular analysis shows that its ratios are increasing and high as compare to other companies of the selected group. Its means FFC cash tie up position in the inventory is low as compare to the others. But there is a risk of stockouts that can loss in the business.

AVERAGE AGE OF INVENTORY RATIO
Average Age of Inventory Ratio is used to compute the average time required translating into the number days that a company needs to sell its inventory.

**Formula**

$$\text{Average Age of Inventory} = \frac{365}{\text{Inventory Turnover}}$$

**Tabular Representation**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Year 2008</th>
<th>Year 2009</th>
<th>Year 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAWH</td>
<td>365 / 9.01 = 40.51</td>
<td>365 / 81.92 = 4.46</td>
<td>365 / 34.83 = 10.48</td>
</tr>
<tr>
<td>FFBL</td>
<td>365 / 5.94 = 61.45</td>
<td>365 / 7.84 = 46.56</td>
<td>365 / 23.86 = 15.30</td>
</tr>
<tr>
<td>FFC</td>
<td>365 / 40.48 = 9.02</td>
<td>365 / 102.02 = 3.58</td>
<td>365 / 142.27 = 2.57</td>
</tr>
</tbody>
</table>

**WORKING**

There is no need of working.

**GRAPHICAL REPRESENTATION/TREND ANALYSIS**
INTERPRETATION

The Average age of Inventory ratio for the year 2008, 2009 and 2010 of DAWH, FFBL and FFC are 40.51, 4.46, 10.48, 61.45, 46.56, 15.30, 9.02, 3.58 and 2.57 respectively. Low average age of inventory ratio is considered as good and the logic is that company is efficiently managing and selling its inventory. Here FFC stand as top in his group as graph and tabular analysis shows that its ratios are increasing and high among the selected companies. Its means FFC cash tie up position in the inventory is low as compare to the others. But there is a risk of stockouts that can loss in the business
TOTAL ASSET TURNOVER RATIO

This ratio is used to measure the efficiency of the company that how nicely the company used their total assets to generate revenue.

Formula

Total Asset Turnover = \( \frac{\text{Net Credit Sales}}{\text{Total Net Assets}} \)

Tabular Representation

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Year 2008</th>
<th>Year 2009</th>
<th>Year 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAWH</td>
<td>7,428,702,879 / 25,630,139,749 = 0.29</td>
<td>11,040,361,936 / 29,607,407,984 = 0.37</td>
<td>8,715,711 / 27,226,307 = 0.32</td>
</tr>
<tr>
<td>FFBL</td>
<td>26,820,812 / 46,771,671 = 0.57</td>
<td>36,724,920 / 36,225,182 = 1.01</td>
<td>43,256,712 / 35,335,992 = 1.22</td>
</tr>
<tr>
<td>FFC</td>
<td>30,592,806 / 31,918,963 = 0.96</td>
<td>36,163,174 / 38,551,582 = 0.94</td>
<td>44,874,359 / 43,060,856 = 1.04</td>
</tr>
</tbody>
</table>

WORKING

There is no need of working.
GRAPHICAL REPRESENTATION/TREND ANALYSIS

Total Asset Turnover Ratio

INTERPRETATION

The Total asset turnover ratio for the year 2008, 2009 and 2010 of DAWH, FFBL and FFC are 0.29, 0.37, 0.32, 0.57, 1.01, 1.22, 0.96, 0.94 and 1.04 respectively. Higher the ratio higher will be the utilization of the total asset to produce revenue. Graph and tabular analysis shows that FFBL is standalone in the group as ratios are higher and it
is going on increase as compare to the historical figures. Its means FFBL is better using its total assets to produce revenue as compared to the DAWH and FFC.

**TOTAL FIXED ASSET TURNOVER RATIO**

This ratio is used to measure the productivity of the company that how nicely a company used their fixed assets in order to generate certain level of revenue.

**Formula**
Total Fixed Asset Turnover = \frac{Net\ Credit\ Sales}{Net\ Property,\ Plant\ &\ Equipments}

Tabular Representation  
*Mention properly the unit of ratio*

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Year 2008</th>
<th>Year 2009</th>
<th>Year 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAWH</td>
<td>7,428,702,879 / 1,328,779,975 = 5.60</td>
<td>11,040,361,936 / 1,340,587,535 = 8.23</td>
<td>8,715,711 / 1,871,708 = 4.66</td>
</tr>
<tr>
<td>FFBL</td>
<td>26,820,812 / 15,847,104 = 1.70</td>
<td>36,724,920 / 15,576,899 = 2.36</td>
<td>43,256,712 / 14,706,760 = 2.94</td>
</tr>
<tr>
<td>FFC</td>
<td>30,592,806 / 12,730,813 = 2.40</td>
<td>36,163,174 / 13,993,518 = 2.58</td>
<td>44,874,859 / 15,933,588 = 2.82</td>
</tr>
</tbody>
</table>

**WORKING**

There is no need of working.

**GRAPHICAL REPRESENTATION/TRENDS ANALYSIS**
The Total fixed asset turnover ratio for the year 2008, 2009 and 2010 of DAWH, FFBL and FFC are 5.60, 8.23, 4.66, 1.70, 2.36, 2.94, 2.40, 2.58 and 2.82 respectively. Higher the ratio higher will be the utilization of the total fixed asset to produce revenue. Graph and tabular analysis shows that DAWH is on top in the group as ratios are higher but it is decreasing as compare to the historical data on the other hand FFBL and FFC ratios are low as compare to DAWH but their ratio are increasing with the passage of time and FFC is more consistent in the group.

Why DAWH is facing decreasing trend and how the other two companies be able to manage increasing trend?
OPERATING CYCLE RATIO

This ratio is used to calculate the average time period that the cash is tied-up in the purchases of inventory and held to sales and then the average number of days required to liquidate the credit sales from its debtors/accounts receivable.

Formula

Operating Cycle = DIO + DSO

DIO = Days Inventory Outstanding = \( \frac{\text{Average Inventory}}{\text{Cost of Goods Sold}} \times 365 \) = Average age of Inventory

DSO = Days Sales Outstanding = \( \frac{\text{Average Accounts Receivable}}{\text{Total Credit Sales}} \times 365 \) = Average Collection Period

Tabular Representation

<table>
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<tr>
<th>Company Name</th>
<th>Year 2008</th>
<th>Year 2009</th>
<th>Year 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAWH</td>
<td>40.51 + 0.33 = 40.84</td>
<td>4.46 + 0.31 = 4.77</td>
<td>10.48 + 0.25 = 10.73</td>
</tr>
<tr>
<td>FFBL</td>
<td>61.45 + 3.60 = 65.05</td>
<td>46.56 + 3.79 = 50.35</td>
<td>15.30 + 5.51 = 20.81</td>
</tr>
</tbody>
</table>
**WORKING**

There is no need of working as calculated in the earlier part of this project.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FFC</td>
<td></td>
</tr>
<tr>
<td>9.02 + 13.23 =</td>
<td>22.25</td>
</tr>
<tr>
<td>3.58 + 3.78 =</td>
<td>7.36</td>
</tr>
<tr>
<td>2.57 + 2.50 =</td>
<td>5.07</td>
</tr>
</tbody>
</table>

**GRAPHICAL REPRESENTATION/TREND ANALYSIS**

Operating Cycle Ratio

**INTERPRETATION**
The operating cycle ratio for the year 2008, 2009 and 2010 of DAWH, FFBL and FFC are 40.84, 4.77, 10.73, 65.05, 50.35, 20.81, 22.25, 7.36 and 5.07 respectively. Lower the ratio higher will be cash available to meet the short term obligation and less cash is tied up in inventory and receivables. FFC is exceptional in the group of selected companies. Their ratios are low in the group and also dropping as compare to the historical figures. What is the reason behind that? Present proper detailed analysis.

Web link provided to download FINANCIAL STATEMENTS of the Selected Companies

Dawood Hercules Limited

http://www.dawoodhercules.com/financial.html

Fauji Fertilizer Bin Qasim Limited


Fauji Fertilizer Co. Limited

Conclusion

You are required to properly conclude with overall findings that why DAWH & FFC are better and why FFBL is not.

Conclusion is that DAWH and FFC is better to use their asset with respect to the activity ratio Analysis.

Recommendation

Properly recommend for all companies that which area each company required to improve and how it can improve.

I recommended FFC as it is more consistent than the other companies.
CHAPTER – 4
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