World Vision

ISSN: 2078-8460

Vol. 8 • No. 1 • Nov 2014

Corporate Performance and Ratio Analysis- Development of Governance Paradigm for a Corporate Body with reference to Lanka Bangla Finance Limited

Sonia Islam*

Abstract

The financial health of a company may be determined by use of diagnostic procedures. As in a physical examination, a variety of tests is needed to obtain a complete picture. The purpose of financial analysis is to diagnose the current and past financial condition of a firm and to give some clues about its future condition. The first battery of tests consists of financial ratios. The ratios describe relationships between selected items that appear on a firm's financial statements. Financial ratios may be combined in various ways provide different analytical perspectives. This paper presents diagnostic tools designed to determine the financial performance of a company. To illustrate the paper, the author has referred to the financial statements for LankaBangla Finance Limited for five consecutive years. LankaBangla Finance Limited has adopted an aggressive financing position, has higher market prices, is generating higher revenues and is capital-equity ratio its capital employed less frequently than overall situation. At the same time it has improved its profit margin and is attempting to bring its return on equity up. It may have increased the growth and cash flow prospects for the company, but it has also increased its risk.

Keywords: *ratio analysis, financial performance, operational efficacy, governance paradigm.*

Introduction

Financial statements provide a summarized view of the financial position and performance of a firm. Therefore, much can be learnt about a firm from careful examination of its financial statements as invaluable documents/performance reports. The analysis of financial statements is, thus, an important aid to financial analysis. The focus of financial analysis is on key figures in the financial statements and the significant relationship that exists between them. The analysis of financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firm's position and operations. The first task of the financial analyst is to select the information

* Lecturer, Department of Business Administration, European University of Bangladesh.

relevant to the decision under consideration from the total information contained in the financial statements. The second step is to arrange the information in a way to highlight significant relationships (Khan & Jain, 2008). The final step is interpretation and drawing of inference and conclusions. In brief, financial analysis is the process of selection, relation and evaluation. The present paper is devoted to an in-depth analysis of financial statements and its use for decision making by various parties interested in them. The focus of the paper is on ratio analysis as the most widely used technique of the financial analysis.

Objective of the Study

The objectives of the study are to:

(a) Identify the ratio analysis efficiency criteria for framing a governance paradigm;

(b) Evaluate the efficiency of ratio analysis on the basis of the selected criteria;

(c) Suggest proponents of operational efficacy for best corporate management;

Rationale of the Study

Ratio analyses are relative figures reflecting the relationship between variables. They enable analysts to draw conclusions regarding financial operations. The use of ratios as a tool of financial analysis involves their comparison for a single ratio, like absolute figures, fails to reveal the true position. More than one kind of financial statement may be prepared and used (Pinches, 1990). The three used by most firms are-

(a) Financial statements prepared according to generally accepted accounting principles (GAAP). These data are presented in various financial publications and reported to the firm’s stockholders in the annual report.

(b) Tax reporting statements. Because of differences between what is allowed for tax reporting (internal revenue service regulations) and what is required for GAAP purpose, separate tax statements are prepared. Tax consequences are of vital concern because the payment of taxes is a direct cash outflow for the firm.

(c) Report for internal management. Firms often develop their own internal reporting requirements, which are based on divisions, cost centers or some other units. Included are such items as direct costing, contribution margin analysis, standard costs and variances and transfer pricing.

Our interest is in financial statement analysis but we must specify which financial statements. The statements we are interested in are those prepared for external use based on GAAP. The objective of those principles is to provide a consistent and objective account of the firm’s financial status based on historical costs, where revenues and expenses are matched over the appropriate time periods. It should be noted that computing the ratio does not add any information not already inherent in the above figures of profits and sales. What the ratios do is that they reveal the relationship in a more meaningful way so as to enable equity investors; management and lenders make better investment and credit decisions.

Methodology of the Study

The main objective of this paper is to identify the performance of ratio analysis of financial companies in Bangladesh and LankaBangla Finance Limited was chosen for a case study. For that purpose, firstly a conceptual framework was developed by reviewing existing literature on ratio analysis. Secondly, information was collected concerned officials, annual reports and other published documents of the company. This study has been made on the basis of secondary data and this is an analytical type of research in nature. Annual report of LankaBangla Finance Limited in 2006-2010 is considered as the only means of information communication in the context of Bangladesh. Data from these are used in calculating the financial ratios and indicators described in the remainder of this paper. When the ratios require other data, these data are provided in the calculations. Secondary data have been collected and analyzed from different journals, articles, news dailies, periodicals, magazines, websites etc. For the betterment of this paper a special attention was on the annual report of LankaBangla Finance Limited in 2010.

Limitation of the Study

The ratio analysis of LankaBangla Finance Limited (LBFL) provided many insights in to the firm's financial condition. But the paper has some limitations.

1. The basic data arise from the accounting process and are therefore based on annual reports in 2006 to 2010.
2. "Window dressing" may appear in financial statements.
3. Inflation has material effects on the firm that is not fully accounted for in analysis.
4. For LBFL with partially international operations, others reporting problems exist in addition to those faced by domestic firms.
5. The quick and assets management ratios would not be shown here, due to the company is service oriented firm.
6. Finding an appropriate industry for comparison is not as simple as it sounds.

The financial ratios, remember, are diagnostic tests. A single diagnostic test does not provide enough information about a company for its current condition to be accurately evaluated.

Financial Statement Analysis

The financial statements provide a summarized view of the financial position and operations of the firm (Khan & Jain, 2008). The annual report that a firm issues to stockholders contains important financial information. The primary financial statements are the income statement and balance sheet. The income statement records the flow of revenue and related expense through the firm over some period of time, typically a year. The balance sheet mirrors the financial position on a particular date in terms of the structure of assets, liabilities and owners' equity. These along with the cash flow statement and the footnotes to the statement provide an accounting picture of the firm. In recognition of the importance of cash flows, cash flow statement must now be reported along with a firm's balance sheet and income statement. This new cash flow statement replaces the former statement of changes in financial position.

Financial statements report what happened to the firm in terms of sales, assets, liabilities, earnings, dividend and so forth, over time. This information is one of the inputs investors and general investment community use to form expectations about the required returns and risk ness of the firm. As investors form and revise their expectations about the magnitude, timing or risk of the firm's returns, the market price of the firm's stock will be affected. Understanding the annual report is therefore important for investors and for the firm's management (Pinches, 1990).

Ratio Analysis

Ratio analysis is a widely-used tool of financial analysis. It can be used to compute the risk and return relationships of firms of different sizes. It is defined as the systematic use of ratio to interpret the financial analysis so that the strengths and weakness of a firm as well as it historical performance and current financial condition can be determined. The term ratio refers to the numerical or quantitative relationship between two items or variables (Khan & Jain, 2008). This relationship can be expressed as (i) percentages, (ii) fraction and (iii) proportion of numbers. These alternative methods of expressing items which are related to each other are for purpose of financial analysis referred to as ratio analysis.

Nature of Ratio Analysis

Ratio analysis is a powerful tool of financial analysis. In financial analysis, a ratio is used as a benchmark for evaluating the financial position and preference of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of a firm. An accounting figure conveys meaning when it is related to some other relevant information. For example, a TK. five crore net profit may look impressive but the firm's performance can be said to be to be good or bad only when the net profit figure is related to the firm's investment. The relationship between two accounting figures, expressed mathematically is known as a financial ratio or simply as a ratio. Ratios help to summarize large quantities of financial data and to make qualitative judgment about the firm's financial performance. For example, consider current ratio, it is calculated dividing current assets by current liabilities; the ratio indicates a relationship- a quantified relationship between current assets and current liabilities. This relationship is an index which permits qualitative judgment to be formed about the firm's ability to meet its current obligations. It measures the firm's liquidity. The greater the ratio, the greater becomes the firm's liquidity and vice verse. The point to note is that a ratio reflecting a quantitative relationship, helps to form a qualitative judgment, such is the nature of all financial ratios (Pandey, 2002).

Users of Ratio Analysis

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and income statement account. Financial analysis can be undertaken by management of the firm or by the parties outside the firm, viz owners, creditors, investors and others. The nature of analysis will differ depending on the purpose of the analyst. Trade creditors are interested in firm's ability to meet their claims over a very short period of time. Their analysis will, therefore, confine to the evaluation of the firm's liquidity position. Suppliers of long-term debt or other hand are concerned with the firm's long-term solvency and survival. They analyze the firm's profitability evaluating its ability to generate cash to be able to pay interest and repay principal and the relationship between various sources of funds (capital structure relationships). Long-term creditors do analyze the historical financial statement but they place more emphasis on the firm's projected or pro forma, financial statements to make analysis about its future solvency and profitability. Investors, who have invested their money in firm's shares, are most concerned about the firm's earnings. They restore more confidence in those firms that show steady growth in earnings. As such, they concentrate on the analysis of the firm's present and future profitability. They are also interested in the firm's financial structure to the extent in influences the firm's earnings ability and risk. Management of the firm would be interested in every aspect of the financial analysis. It is their overall responsibility to see that the resources of the firm are used most effectively and efficiently and that the firm's financial condition is sound (Pandey, 2002).

Types of Ratios

Several ratios, calculated from the accounting data, can be grouped into various classes according to financial activity or function to be evaluated. As stated earlier, the parities interested in financial analysis are short and long-term creditors, owners and management. Short-term creditors' main interest is in the liquidity position or the short-term solvency of the firm. Long-term creditors, on the other hand, are more interested in the long-term solvency and profitability of the firm. Similarly owners concentrate on the firm's profitability and financial condition. Management is interested in evaluating every aspect of the firm's performance. They have to protect the interests of all parties and see that the firm grows profitably. In view of the requirements of the various users of ratios, we may classify them into the following important categories (Pandey, 2002):

Liquidity ratios- It indicates the firm's ability to meet its short-term obligations.

Asset management ratios- It indicates how efficiency the firm is using its assets.

Debt management ratios- It deals with the amount of debt in firm's capital structure and its ability to service or meet its legal obligations.

Profitability ratios- It relates net income to sales, assets or stock holders' equity.

Market ratios- It indicates what, is happening to the firm's relative market price, earnings and cash dividends (Pinches, 1990). Each of those ratios is discussed below:

(A) Liquidity Ratios: Liquidity ratios measure the firm's ability to fulfill its short-term commitments out of current of liquid assets. These ratios focus on current assets and liabilities and are often of lessor importance when considering the long-run viability and profitability of the firm (Pinches, 1990). The two primary liquidity ratios are-

(i) Current Ratio is a measure of the firm's short-term solvency. It indicates the availability of current assets in currencies for every one currency of current liability. A ratio of greater than one means that the firm has more current assets than current claims against them (Pandey, 2002).

(ii) Quick Ratio also called the acid test ratio that is a measure of the near-term ability of the firm to meet its current liabilities without using its inventory. Quick ratios of less than 1.0 are not alarming in and of themselves. Very high quick ratios suggest excess cash, a credit policy that needs revamping or a change needed in the composition of current versus long-term assets (Pinches, 1990).

(B) Asset Management Ratios: Asset management ratios are sometimes called activity ratios. They look at the amount of various types of assets and attempt to determine if they are too high or too low with regard to current operating levels. If too many funds are tied up in certain types of assets that could be more productively employed elsewhere, the firm is not as profitable as it should be (Pinches, 1990). The basic asset management ratios are-

(i) Inventory Turnover commonly measures the actively or liquidity of a firm's inventory. A higher inventory turnover ratio suggests efficient inventory management. Low inventory turnover figures often indicate obsolete inventory or lack of effective inventory management (Pinches, 1990).

(ii) Average Collection Period or Average Age of Accounts Receivable takes on average to collect the sales of the firm (Pinches, 1990).

(iii) Average Payment Period or Average Age of Accounts Payable is calculated in same manner as the average collection period (Gitman, 2004).

(iv) Total Asset Turnover provides an indication of the firm's ability to generate sales in relation to its asset base. A high total asset turnover normally reflects good management, while a low ratio suggests the need to reassess the firm's overall strategy, marketing effort and capital expenditure program (Pinches, 1990).

(C) Debt Management Ratios: To judge the long-term financial position of the firm, debt management or leverage or capital structure ratios are calculated. These ratios indicate mix of funds provided by the owners and lenders. As a general rule, these should be an appropriate mix of debt and owner's equity in financing of firm's assets. It focuses attention on the right-hand side of the balance sheet and income statement. The common debt management ratios are-

(i) Debt Ratio measures the proportion to total assets financed by the firm's creditors. The higher this ratio, the greater the amount of other people's money being used to generate profits (Gitman, 2004).

(ii) Debt-Equity Ratio reflects the relative claims of creditors and shareholder against the assets of the firm. Alternatively, this ratio indicates the relative proportions of debt and equity in financing the assets of a firm (Khan & Jain, 2008).

(iii) Capital-Equity Ratio is yet another alternative way of expressing the basic relationship between total capital and equity (Pandey, 2002).

(iv) Interest Coverage Ratio or Time-interest-earned Ratio is used to test the firm's debt servicing capacity. It is computed by dividing earnings before interest and taxes (EBIT) by interest charges (Pandey, 2002).

(D) Profitability Ratios: The profitability ratios are calculated to measure the operating efficiency of the company. Beside management of the company, creditors, owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get a required rate of return on their investment. This is possible only when the company earns enough profit (Pandey, 2002). The profitability ratios, which focus on the profit-generating ability of the firm are-

(i) Net Profit Margin measures the percentage of each sales amount remaining after all costs and expenses, including interest, taxes and preferred stock dividends have been deducted. The higher the firm's net profit margin, the better becomes the position (Gitman, 2004).

(ii) Earnings per Share (EPS) is generally of interest to present or prospective stockholders and management. It represents the number of amount earned during the period on behalf of each outstanding share of common stock (Gitman, 2004).

(iii) Return on Asset (ROA), often called the return on investment (ROI) measures the overall effectiveness of management in generating profits with its available assets. The higher the firm's return on total assets, the better position it gains (Gitman, 2004).

(iv) Return on Common Equity (ROE) measures the return earned on the common stockholders' investment of the firm. The higher this return, the better becomes its position (Gitman, 2004).

(E) Market Ratios: The market ratio relates the firm's stock price to its earnings, cash flow and book value per share. These ratios give management an indication of what investors think of the company's past performance and future prospects. If the liquidity, asset management, debt management and profitability ratios all look good, then the market ratios will be high and the stock price will probably be as high, as can be expected. The market ratios are-

(i) Dividend per Share (DPS); the net profit after taxes belong to shareholders. But the income which they really receive is the amount of earnings distributed as cash dividend. Therefore, a large number of present and potential investors may be interested in DPS rather than EPS. DPS is the earnings distributed to common stock shareholders divided by number of common stock (Pandey, 2002).

(ii) Dividend-Payout Ratio or simply payout ratio is DPS divided by the EPS (Pandey, 2002).

(iii) Dividend and Earnings Yield; dividend yield is the dividends per share divided by the market value per share and the earnings yield is the earnings per share divided by market value per share (Pandey, 2002).

(iv) Price-Earnings (P/E) Ratio is commonly used to asses the owners' appraisal of share value. The P/E ratio measures the amount that investors are willing to pay for each amount of a firm's earnings. The level of P/E ratio indicates the degree of confidence that investors have in the firm's future performance. The higher the P/E ratio, the greater is investor confidence (Gitman, 2004).

(v) Market-Book (M/B) Ratio provides an assessment of how investors view the firm's performance. It relates the market value of the firm's share to their book (strict accounting) value (Gitman, 2004).

The Company: LankaBangla Finance Limited

LankaBangla Finance Limited, a joint-venture listed financial institution having diversified financial products established with multinational collaboration, started its journey in 1997. The institutional shareholding structure and corporate culture have enabled LankaBangla to be the most diverse financial service providing institution of the country. The company has been awarded the ICAB national award consecutively from 2006 to 2010 and SAFA merit award 2008 to 2010 that represents the transparency in disclosure of information. Under the direction of the management the company has emerged as one of the leading financial institution in the country.

Objectives of the Company

LankaBangla Finance Limited practices participatory management and adheres to industry best practices in all endeavors. Increasing stakeholders' value is a natural driving force for the people at LankaBangla; nevertheless maintaining quality of service is at the core of business which earned its unparallel customer loyalty. Everything is done in compliance of all norms and regulatory requirements. The objectives of the company are given below:

□ Enrichment & expansion of financial offerings by introducing new product and service lines through proper diversification and customization of existing products and services for ensuring maximum market coverage to meet & exceed stakeholders' needs & expectations.

□ Continuous improvement in operational processes through technological advancement, employee capacity building and improvement through human resources development programs, thereby ensuring effective and efficient utilization of resources to maximize the value of the company.

□ Strengthening building blocks to consolidate the product & service framework and maintaining strict compliance to good governance norms and regulations to ensure long term sustainability of the company.

□ Building synergy among resources and activities to ensure maximum outputs from resource inputs.

□ Contribute to the society to share the achievements of the company with the nation.

Code of Conduct of the Company

LankaBangla is a value driven organization that means it does not depart from the principles even if it gives sometimes temporary benefit to the company. Company believes that its reputation and dignity is absolutely priceless asset. The company's affairs get the utmost priority all of the employees. The company's reputation not only affects whether or not someone will be customer; it also determines to be associated with the firm. The code of conduct is designed to guide the employees of the company to observe, comply with the prudential norms of conduct, manner and behavior. It is in alignment with the company's vision and values to achieve the mission, objectives and aims at enhancing the ethical and transparent process in managing the affairs of the company. It also applies to every employee of Lankabangla and may be furnished to others for discharging the responsibilities. In additional to the ethical guidelines included in the code, there are many laws and regulations that affect each of the business that company does. Complying with law is mandatory for everyone and is not subject to business priorities or individual discretion.

Products and Services of the Company

LankaBangla is the lone non-banking financial institution who operates MasterCard & VISA Card including third party processing business with other banks. The company is also involved in dealing with securities as broker in capital market both Dhaka Stock Exchange and Chittagong Stock Exchange through its subsidiary named LankaBangla Securities Limited, who is the business leader in this arena. The merchant banking department has converted into another subsidiary of LankaBangla Finance to comply with the statutory regulations that are catering the premier investment banking service. The products and services of the company are given in the Appendix-1.

Corporate Governance of the Company

LankaBangla Finance Limited considers good corporate governance to be the cornerstone of a well-managed organization. Good corporate governance goes beyond the output of transparent, timely and full financial disclosures to a gamut of decisions and structures manifested by board composition, decision-making powers, internal governance to instilling the right corporate culture across the organization. LankaBangla aspires to the highest standards of corporate governance, starting with board of directors and continuing throughout the organization. The promotion of corporate transparency, fairness and accountability is led by a highly qualified independent board accountable to shareholders, aided by a seasoned and experienced management team.

Corporate governance is one important area of emphasis of the company in strengthening the foundation of LankaBangla's long-term economic performance and ensuring the interest of Lankabangla Finance Limited shareholders and its stakeholders are looked after. Corporate governance remains an importance focus of the board of directors to improve and promote across its subsidiaries, local and country levels.

As a financial institution, the company is guided in its corporate governance practices by the code of corporate governance issued by the Securities and Exchange Commission on corporate governance notification and governance and the NBFI (corporate governance) regulations issued by Bangladesh Bank from time to time.

Findings of the Study

Now we begin the process of ratio analysis. To show the process, we will refer the financial Statement for Lankabangla Finance Limited (LBFL) for five consecutive years (2006 to 2010). Data from these statements are used in calculating the financial ratios indicated in the remainder of this paper. When the ratios require other data, these data are provided in the calculations. We use data covering five years as a basis for their financial analysis, because some trends can be detected only over a long time span. However, the five year data used here are sufficient to demonstrate some basic techniques of financial analysis. Lankabangla Finance Limited is a non-banking financial institution (NBFI). It is a mature firm in a mature sector. The company provides loans and lease, its products and services to business firms and enterprises. The chief financial officer (CFO) of LBFL analyzes the company's financial condition periodically to asses its strengths and weaknesses. Then, he knows what actions are necessary to keep Lankabangla in time with its long-range plans. The first part of the analysis evaluates a wide range of financial ratios in indicators. As part of the analysis, the firm's ratios are compared with averages for the standard ratio. The ratios are divided into four broad categories; liquidity, debt management, profitability and market ratios. The quick and assets management ratios would not be shown here as the company is a service oriented firm. The ratios, remember, are diagnostic tests. A single diagnostic test does not provide enough information about a company for its current condition to be accurately evaluated. Therefore, many tests are used to obtain a complete picture. Accordingly, a summary of 14 financial ratios is presented Appendix-2 at the end of this paper.

Current Ratio: The current ratio is broad measure of liquidity derived by dividing current assets by current liabilities. It is considered broad because it includes all current assets and current liability (Benton, 1987). The current ratio for LBFL is 1.07 in year 2006 and increased in 2007 to 2009 are 1.14, 1.16 and 1.20 per year respectively but decreased 1.14 in 2010. The current ratio suggests that LBFL has sufficient funds to meet its current liabilities. It may also suggest that LBFL to liquid firm.

Debt Ratio: The debt ratio indicates what proportion of a firm's total assets is financed with borrowed funds. We find it by dividing total liabilities by total assets (Benton, 1987). In the case LBFL, 85% of total assets were financed by borrowing in 2006 and increased to 90% in 2007. 75% of assets were financed by borrowing in 2010, down sharply from the previous year's level. This is a result of substantial reductions in short and long-term liability.

Debt-Equity Ratio: The debt-equity ratio is the ratio of total outside liabilities to owners' total funds. In other words, it is the ratio of the amount invested by outsiders to the amount invested by the owners of business (Khan & Jain, 2008). The data for LBFL reveal a decline in debt-equity ratio in 2006 to 2010. The reduction in debt reduces the financial risk of the firm.

Net Profit Margin: Net profit margin is profitability. It can be measured in terms of operating revenue. The net profit margin on service revenue computed by dividing earning after taxes (EAT) by operating revenue is the percentage of profit earned for each amount of money of service revenue (Benton,1987). The profit margin for LBFL has increased 18% to 41% in year 2006 to 2010.

Earnings per Share (EPS): EPS is the statistic quoted most often when profitability is discussed. The reason for its popularity is that it is easy to understand and to relate to stock prices. It may recall that EPS is derived by dividing earnings available for common stock by the average number of shares outstanding (Benton, 1987). For LBFL 35 million shares of common stock were in 2006 and 2007 and 38.50, 44.275, 53.13 in year 2008, 2009, 2010 respectively. The TK. 2.43, 5.47, 9.81, 14.00 and 32.00 in year 2006 to 2010, the EPS is increased.

Return on Asset (ROA): Here, the profitability ratio is measured in terms of the relationship between net profits and assets (Khan & Jain, 2008). The operating return on assets can be refined to take interest and taxes into account. When this is done, we compute the ratio by dividing net income by total assets (Benton, 1987). As we might expect, LBFL's ROA's increased 3.00% to 8.80% in 2006 to 2010. This indicates increasing efficiency in asset base utilization.

Return on Equity (ROE): The ROE measures the rate of return on the owners' investment and is calculated by dividing net income by total shareholders' equity (Benton, 1987). This will reveal the relative performance and strength of the company in attracting future investments (Pandey, 2002). LBFL has no preferred shares outstanding. Common shareholders were happy about the company's performance in 2007. But it was decreased in 2008 and 2009. ROE is 35.40% in 2010 compared to 35.42% in 2009; it was a little bit improved than 2009.

Dividend per Share (DPS): DPS is the dividends paid to the equity shareholders on a per share basis. The DPS would be a better indicator than EPS as the former shows what exactly is received by the owners (Khan & Jain, 2008). LBFL's DPS was TK. 1.21 in 2006 and increased its up to TK. 23.10 in 2010. So, it was good symptom for the company.

Dividend Payout Ratio (DPR): The extent to which cash dividends are paid to common shareholders is called the DPR and is computed by dividing dividends per share by earnings per share (Benton, 1987). LBFL DPR 49.73% in 2006, increased 76.50% in 2007, decreased 69.45%, 44.15% in 2008, 2009 but increased 72.49% in 2010.

Dividend Yield: The dividend yield is computed by dividing the cash dividend per share by the market value per share (Khan & Jain, 2008). Since returns from investing in stocks come from cash dividend and appreciation or loss in market price, this is part of the total return expected by investors (Pinches, 1990). LBFL with high growth prospects have relatively low cash dividends and a relatively high market price, meaning they have a low dividend yield.

Price-Earning (P/E) Ratio: P/E ratio shows much investor is willing to pay per dollar of reported profits (Brigham, 2001). In LBFL P/E ratio indicates that investors were paying TK. 8.19 for each TK. 1.00 of earnings in 2006. The ratios were increased 18.30, 20.04 and 22.40 in the years 2007, 2008 and 2009. But the ratio was decreased to 15.56 in 2010.

Market-Book (M/B) Ratio: The ratio of a stock's market price to its book value gives another indication of how investor regards the company. Companies with relatively high rates of return on equity generally sell at higher multiples of book value than those with low returns (Brigham, 2001). In LBFL's M/B ratio is 1.99 in 2006. This M/B ratio means that investors were paying TK. 1.99 for each TK. 1.00 of book value of LBFL's stock. The stocks of LBFL that are expected to perform well, improve profits and increase their share market price typically M/B ratios increased 1.99 to 49.79 in 2006 to 2010.

Conclusions and Recommendations

Based on LankaBangla Finance Limited (LBFL) financial statements and annual reports in 2006 to 2010, the financial ratios, we observe that:

1. LBFL liquidity has remained constant in the last five years. This suggests LBFL has adopted a more conservative working capital policy position.
2. LBFL debt is slightly above and its coverage ratios are increased slightly.
3. Comparing LBFL's net profit margin and return on equity is high.
4. Finally, LBFL's P/E ratio is slightly higher, suggesting that the firm is regarded as somewhat riskier than most, or as having higher growth prospects, or both. In addition, LBFL has paid out about the increased percentage of its earnings as dividends. However, because of its higher market price, it provided lower dividend yield to the investors.

Our financial analysis suggests that LBFL has some problems as well. It has adopted an aggressive financing position, has higher market prices, is generating higher revenues and its capital employed less frequently than overall situation. At the same time it has improved its profit margin and is attempting to bring its return on equity up. This may have increased the growth and cash flow prospects for LBFL, but it has also increased its financial risk.

Appendix-1:

The products and services of LankaBangla Finance Limited

<u>Credit and Investment Products</u>	<u>Merchant Banking Operation</u>
□ Lease Finance	□ Investors' Portfolio Management Services
□ Term Finance	□ Margin loan
□ Short Term Finance	□ IPO Advisory
□ Working Capital Finance	□ Issue Management
□ Factoring Finance	□ Underwriting
□ Personal Loan	
<u>Card Operation</u>	<u>Deposit Schemes</u>
□ MasterCard and VISA Card Issuing	□ Periodic Return Term Deposit
	□ Cumulative Term Deposit
□ MasterCard Acquiring	□ Double Money Term Deposit
□ Third Party Card Processing	□ Money Builders Term Deposit
<u>Mortgage Loan</u>	<u>Corporate Services</u>
□ Home Loan	□ Syndication of Loan
□ Real Estate Developers' Finance	□ Corporate Advisory Services
	□ Investment Counseling
<u>SME Finance</u>	<u>Primary Dealership</u>
□ SME Finance- for small Medium businesses to empower the people.	Primary and Secondary operation of
	□ Treasury Bill and
	□ Treasury Bond
<u>Auto Loan</u>	<u>Stock Broking</u>
□ Car Finance- for individuals and institutions	□ Cutting edge Broking provided by LankaBangla Securities Limited

Appendix-2:
Ratio Analysis of the Company

Particulars	Usable Formula	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
Current Ratio	Current Ratio = $\frac{\text{Current Asset}}{\text{Current Liability}}$	1.07	1.14	1.16	1.20	1.14
Debt Ratio	Debt Ratio = $\frac{\text{Total Liability}}{\text{Total Asset}}$	0.85	0.90	0.89	0.84	0.75
Debt-Equity Ratio	Debt-Equity Ratio = $\frac{\text{Total Debt}}{\text{Shareholders' Equity}}$	5.67	8.68	7.79	5.4	3.03
Capital-Equity Ratio	Capital-Equity Ratio= $\frac{\text{Capital Employed}}{\text{Shareholders' Equity}}$	0.83	0.59	0.42	0.21	0.11
Interest Coverage Ratio	Interest Coverage Ratio = $\frac{\text{EBIT}}{\text{Interest}}$	1.41	1.50	1.53	1.79	2.67
Net Profit Margin	Net Profit Margin= $\frac{\text{EAT(for Com. Stock)}}{\text{Service Revenue}}$	0.18	0.22	0.24	0.31	0.41
Earnings per Share (EPS)	EPS = $\frac{\text{EAT(for Common Stock)}}{\text{Number of Common Stock)}}$	2.43	5.47	9.81	14.00	32.00
Return on Asset (ROA)	ROA = $\frac{\text{EAT(for Common Stock)}}{\text{Total Asset}}$	3.00%	4.89%	4.66%	5.54%	8.80%
Return on Common Equity (ROE)	ROE = $\frac{\text{EAT(for Common Stock)}}{\text{Shareholders' Equity}}$	19.32%	41.23%	40.94%	35.42%	35.49%
Dividend per Share (DPS)	DPS = $\frac{\text{Dividend to Common Stock}}{\text{Number of Common Stock)}}$	1.21	4.18	6.81	6.18	23.20
Dividend-Payout Ratio	Dividend-Payout Ratio = $\frac{\text{DPS}}{\text{EPS}}$	49.73%	76.50%	69.45%	44.15%	72.49%
Dividend Yield	Dividend Yield = $\frac{\text{DPS}}{\text{Market Value per Share}}$	5.03%	2.50%	1.53%	1.12%	1.10%
Price-Earnings (P/E) Ratio	P/E Ratio = $\frac{\text{Market Value per Share}}{\text{EPS}}$	8.19	18.30	20.04	22.41	15.56
Market-Book (M/B) Ratio	M/B Ratio = $\frac{\text{Market Value per Share}}{\text{Book Value per Share}}$	1.99	10.00	19.66	31.38	49.79
Share Market Price	Closing Price per Share	19.90	100.10	196.60	313.80	497.90

References:

Pandey. I. M., *Financial Management*, New Delhi: Vikas Publishing House Pvt. Ltd., 2002, p.p.108-186.

Khan MY & Jain PK, *Financial Management*, New Delhi: Tata McGraw-Hill Publishing House Pvt. Ltd., 2008, p.p.7.1-38.

Gitman L.J., *Principles of Managerial Finance,* New Delhi: Pearson Education (Singapore) Pte. Ltd., 2004, p.p.42-74.

Brigham E.F. & Ehrhardt M.C., *Financial Management*, South-Western Thomson Learning, 2001, p.p.75-110.

Van Horne J.C. & Wachowicz J.M., *Financial Management*, New Delhi: Pearson Education (Singapore) Pte. Ltd., 2001, p.p.125-158.

Pinches G.E., *Essentials of Financial Management,* New York: Harper Collins Publishers, 1990, p.p.46-68.

Benton E.G., *Principles of Financial Management,* USA: John Wiley & Sons, Inc., 1987, p.p.312-338.

Brealey, Myers & Marcus, *Fundamentals of Corporate Finance,* McGraw-Hill/Irwin, Fifth edition, p.p.448-470.

Hampton J.J., *Financial Decision Making,* New Delhi: Prentice-Hill Pvt. Ltd., 1998, p.p.98-132.

Weston J.F. & Copeland T.E., *Managerial Finance,* USA: The Dryden Press, 1992, p.p.185-218.

Chandra Prasanna, *Financial Management*, New Delhi: Tata McGraw-Hill Publishing House Pvt. Ltd., 2001, p.p.727-742.

Block S.B. & Hirt G.A., *Fundamentals of Financial Management,* USA: McGraw-Hill/Irwin, 2002, p.p.55-70.

LankaBangla Finance Limited, Dhaka, *Annual Report*: 2006-2010.

Abdullh S.T., *Performance Analysis of Foreign Private Investment in Bangladesh: A Case Study on Singer Bangladesh Ltd.,* Finance & Banking, Vol-4(1), 1998, University of Dhaka.

Kaveri. V.S., *Financial Ratios and Predictors of Borrower Health,* New Delhi: Sultan Chand & Sons, 1980 p.111.

Nabi M.N. & Uddin M.H., *Asset Management and its impact o Firm's Productivity: An Analysis of Bangladeshi Food Industries,* The Cost & Management, Vol-39(3), 2011, ICMAB.
