Financial Management
Pakistan Tobacco

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Coupled with Industry and Economic Analysis

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DATE: 31/05/2012

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Executive Summary

Pakistan Tobacco Company was the first multinational to set up its business in Pakistan in 1947 when it took over imperial tobacco of India and began its operations out of a warehouse near Karachi Port. Through these 65 years PTC has demonstrated in the development of the country. It is a major source of revenue, employment and foreign exchange for the economy and thus contributes to the Gross Domestic Product. Thus we have chosen PTC to base our financial analysis on.

We prepared by first making a strategic plan that is to collect data, process it and then present it with the use of graphs and charts. We look over both the firm and the industry, there ratios, values, statements etc. after getting all the information we started working on them collectively and then finally compiled it. The extent of project will take a lot of effort and time so we decided to start early. In the end we give our opinion of which company is better in the light of the ratios calculated and the analysis done.

In the interest of space, we have decided to exclude the graphs from this report. All of the related excel files have been burned onto the accompanying cd along with detailed charts and graphs.

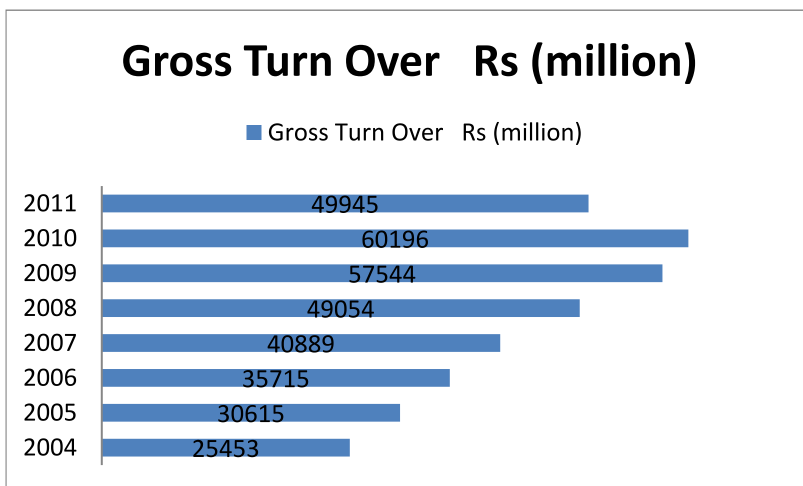
Introduction

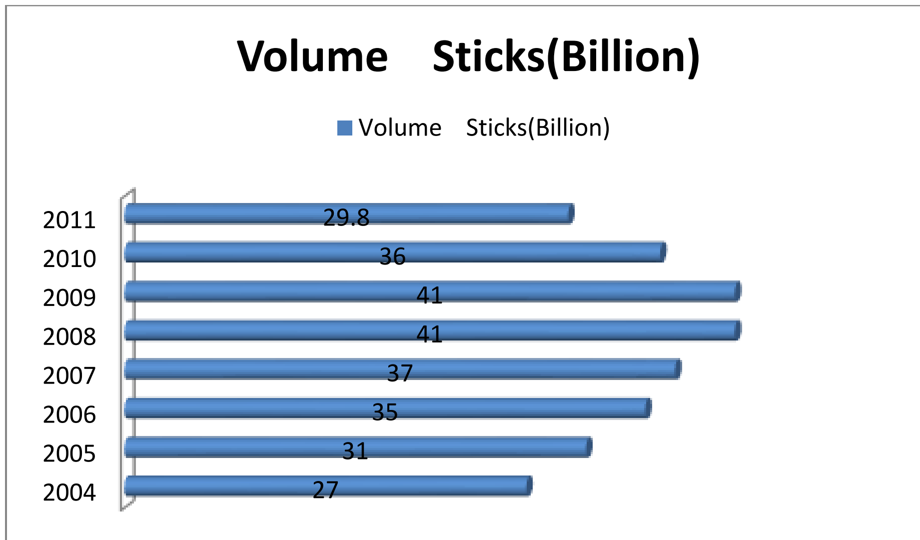
Pakistan Tobacco is the subsidiary company of one of the largest multinational group of the world known as the British American Tobacco (BAT). British American tobacco was founded in 1902 and by 1912 it had become one of the world's top dozen companies. It employs some 90,000 people worldwide and has a presence in 180 countries across the globe. BAT has a position of market leader in more than 50 countries and it sells over 300 brands.

Pakistan Tobacco Company limited was started in 1947 form a warehouse near Karachi port immediately after partition, when British American Tobacco took over the business of the Imperial Tobacco Company of India which had been operating in India since 1905.

Pakistan tobacco Company is a public limited, manufacturing firm, which is involved in carrying out all the processes form tobacco cultivation and final packaging of the cigarettes. Pakistan Tobacco Company has two factories in the country. One is in Jhelum (Punjab) and the other is built in Akora Khattak (NWFP near Nowshera). The factory in Akora Khattak produces low price category brands whereas the factory in Jhelum produces the company's high priced cigarette brands. PTC operates on a very large scale and hence provides job opportunities to 1668 people and employs nearly 3000 people across the country. Pakistan Tobacco produces six cigarette brands namely to consumers in Pakistan, namely Benson and Hedges, Embassy, Gold Flake, Capstan, Gold Leaf and Dunhill.

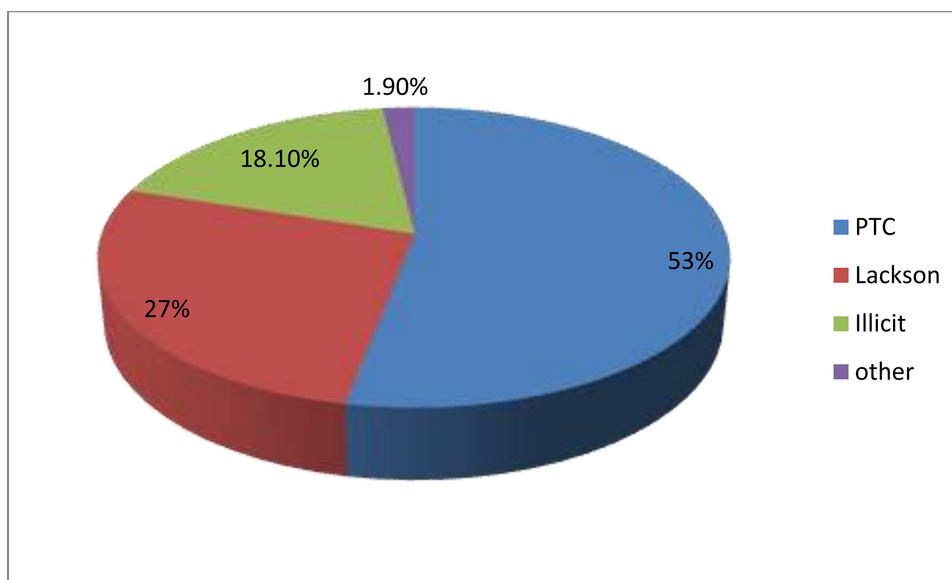
Pakistan Tobacco company pioneered the cultivation of Virginia Tobacco in Pakistan, which has increased form 861kg/hectare to 2400kg/hectare making Pakistan now the 8th largest producer of flue-cured Virginia tobacco in the world. Pakistan Tobacco Company has about 375 exclusive Distributors that employ over 1200 distribution representatives. PTC provides direct store delivery service of their finished products to the 400,000 plus retail stores like supermarkets, groceries and recreation or leisure outlets such as hotels, cafes and restaurants throughout the country.





Competition

There is only one firm competing with Pakistan Tobacco Company which is Lakson Tobacco Company international both of these firms have 86% market share in tobacco industry the remaining is covered by other small firms operating from NWFP and Kashmir



Although Pakistan tobacco is listed on all three stock exchanges of Pakistan but 94.6% of shares are held by its parent company BAT. Thus 5.4% of its shares float in Pakistani stock marke

Economic Analysis:

Growth in GDP	3.5 %
Industrial output	Expanded by 4.9% on Large scale manufacturing
Tax to GDP ratio	Upto 13% by 2013
Commodity producing sector	Expanded at a 3.6% rate
Unemployment rate	Increased to 5.5%

Growth in GDP

The GDP in 209 was 4.1% in 2010 it was 2.8% in 2011 it was 3.56% this shows that Pakistan's GDP is quite low indicating a low Production in the country and not a lot of investment is taking place. This indicates that country is not a safe haven for the investors and hence is bad indicator for PTC.

INDUSTRIAL OUTPUT

The Industrial output on large scale manufacturing increased by 4.9% in 2011 with only a 3.6% increase in 2010. This shows an increase in industrial output in recent year showing some improvement in the industrial segment.

COMMODITY PRODUCTION SECTOR

The commodity production sector expanded by a rate equal to 3.6% in 2011 as compare to 3.4% in 2011. This shows a gradual increase in this sector. This increase can be contributed to the end of War on terror in this region and is a key indicator to improvement and hence an incentive to increased investment for the company in this sector.

UNEMPLOYMENT RATE

Unemployment rate has increased to 5.5% in 2011 which in 2010 was 4.4%. This provides a chance for the company to lower its Costs by hiring people on lower pay scales.

Industrial Analysis:

	Industry Average	PTC Average
Gross Profit Ratio	20.17%	14.66%
Earnings Per Share	15.93%	7.74%
Current Ratio	1.06%	0.88%
Quick Ratio	0.0425	0.063
Dividend Yield	4.625%	5.44%
Interest Cover Ratio	81.05%	106.56%
Return on Equity	48%	55.60%

Gross Profit Ratio:

The industry average for the gross profit ratio is 20.17% whereas Pakistan Tobacco Company's average gross profit ratio is 14.66% that is below the industry average. This shows that PTC is just below the industry average and has performed badly than the tobacco industry in last 8 years. The company through its better management and aggressive marketing has kept its sales above the industry but could not control cost of goods sold.

Return on Equity:

This represents the total interest of ordinary shareholders in the company. That is how the shareholders view the company in terms of their share and how much profitability the company can bring to the shareholders. The industry average of Return on Equity is 48% whereas the average return on equity for PTC has been 55.60%. Return on equity for PTC has been higher than the industry. This means while comparing with other companies in the industry PTC seems to be more profitable for the shareholders; this is why we have seen an increasing trend in the no. of shareholders for the recent six years.

Current Ratio:

The Current Ratio industry average is 1.06 that is for every rupee liability the industry at an average has 1.06 rupees assets to pay that off where as for PTC it is a bit lower than that that of industry. This means company is losing its ability to meet current liabilities out of current assets.

Quick Assets Ratio:

This is the ratio of Quick assets to all Current Liabilities. The Industry average for Quick assets Ratio is 0.0425 whereas PTC has 0.063 rupees of Quick assets to pay off its one rupee liability that it owes. Here the conditions of the company are good which means company is improving in the case of quick assets but some of its current assets are keeps decreasing.

Dividend Yield:

The dividend yield for the company is greater than the industry overall. This shows clearly that the company focuses on growth but as well as on the income. Here, it is getting an edge by receiving a greater return in terms of cash dividends on the current market price of the stock. Hence, dividend payable can easily be paid, which will lower the

current liabilities and raises the quick and current ratios that is increasing its ability to meet current liabilities out of quick/current assets.

Earnings per Share:

The Company has got a very low earning per share as compared to that of the industry. This means the companies working in the industries are more competitive than PTC as they are earning more on the share. However, there is a stable increase in the EPS which is favoured by most of the managers. So maybe for PTC this EPS is good enough.

Company Analysis:

Property, plant and equipment:

The Company reviews useful life and residual value of property, plant and equipment (note 4.12) on regular basis. Any change in estimates may affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge. All property rentals are under cancellable operating lease. These are stated at cost less accumulated depreciation and impairment, if any, except freehold land and capital working progress which is stated at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. The percent change increases in 2006 and 2007 as the company has invested a large sum of money in property plant and equipment to increase the productivity and to improve the quality of products. Such investments are essential to ensure that the Company has the latest machinery and optimization techniques embedded in its processes to adhere to international Environment, Health and Safety standards.

Investment:

The Company also continued to make strategic investments in machinery for capacity building and technology improvement. The business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company. The investment in subsidiary company is carried at cost less impairment losses.. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. . Investments are initially organized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. However we find investments consistent throughout the years.

Long term loans:

The Group's loan comprises trade debts and loans etc. Loans and receivables and held to maturity financial assets are carried at amortized cost using the effective interest method. However find that percentage change in long term loans decreases as the company is taking less loan or probably the company has paid some amount of their loans.

Long term deposits and prepayments:

Deposits whose term is longer than a year are considered long-term. Company chooses long-term deposits of one or more years in order to gain a better interest rate. . Percentage shows that the company made most deposits and prepayments in 2005 and 2008 and eventually decrease and in 2009 it has become -51.63. Means the company is facing a downfall.

Current Assets:

Stock in trade

All the merchandise and equipment kept on hand and used in carrying on a business.
Stock-in-trade is stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in process comprises design costs, raw materials, direct labor, other direct costs and related production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less cost of completion and costs necessary to be incurred to make the sale. It is the resource available to a person at a particular situation. In 2006 and in 2008 company has its least available resources. But in 2010 the percentage is almost 44 which show that company has its maximum assets, the company is doing well and will experience more income and there is a promising future for the company.

Trade debts

The Company's loans and receivables comprise trade debts, loans and advances, other receivables and cash and bank balances. Trade debts are decreasing each year however the percentage change decreases from 2005 to 2007 it then increases to 11.74 in 2008 and a large decrease in percentage occurs in 2009.
This means that company collected a very less amount of debt in last year. In 2010 the company still isn't borrowing much hence trade debt is still small.

Short term prepayments:

Amounts paid in advance (at the end of the accounting year) of goods and services received and referred to as Prepayments. Amounts receivable by the business within a period of 12 months, including bank, debtors, inventory and prepayments. Although company received maximum short term prepayments in 2008 but the percentage change of 2006 and 2005 in almost 125.83 which shows that company received almost double prepayments as compared to 2005. However the percentage change decrease to a large amount in 2007.

Cash and cash equivalents

PTC needed to avoid a possible cash shortage. In cash budgeting, projecting cash inflows (such as collections from customers) and cash disbursements (such as purchases and capital spending) is a difficult task. Even though the company attempts to forecast cash flows as accurately as possible, it is always a good idea to keep certain minimum cash balance on hand. Cash equivalents are one of the three main asset classes, along with stocks and bonds. These securities have a low-risk, low-return profile

Liabilities:

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the company. The revenue reserved by PTC seems to be very less in the year 2004. But they seem to have a sudden increase of more than 50% of the reserves in 2004, this gain of reserves goes on through 2006 but at this point the company fails to even continue with its last reserves. In 2007 revenue reserves decline almost 27% as compared to those of 2006 and there is a further decline of 8% in reserves in 2008. But then the company shows a sudden progress in 2008 and this year its reserves are the highest among the last 5 years. It seems that the company has performed very well in 2009 while taking 2004 as the base year the company in 2009 shows an increase of 140.90% in reserves. In 2009 the company distributed dividends of Rs. 1213596 thousands while in 2008 the dividends were of Rs. 587636 thousands. This is also an indicator towards the successful operations of the PTC.

Profit and Loss:

	2004	2005	2006	2007	2008	2009
Gross Turn Over	100%	120%	140%	160%	192%	226%
Net Turnover	100%	123%	145%	168%	197%	226%
Cost of Sales	100%	119%	137%	156%	190%	220%
Gross Profit	100%	130%	159%	187%	209%	236%
Selling and Distribution Effect	100%	109%	125%	124%	134%	155%
Administrative Expense	100%	96%	108%	123%	135%	184%
Other Operating Income	100%	55%	141%	491%	415%	1552%
Other Operating Expense	100%	80%	66%	88%	161%	135%
Operating Profit	100%	193%	263%	345%	358%	426%
Finance Income		100%	180%	117%	226%	391%
Finance Cost	100%	120%	131%	122%	122%	205%
Profit Before Income Tax	100%	197%	271%	353%	369%	440%
Income tax Expense	100%	195%	244%	333%	348%	416%
Profit of the Year	100%	199%	286%	363%	380%	454%
EPS	100%	199%	287%	364%	381%	455%

Gross turnover

For a company, the ratio of annual sales to inventory; or equivalently, the fraction of a year that an average item remains in inventory. Low turnover is a sign of inefficiency, since inventory usually has a rate of return of zero. Here also called inventory. For a mutual fund, the number of times per year that an average dollar of assets is reinvested. The company gross turnover rate is 100% in 2004 and it rise to 120% in 2005 as company

continues its running till 2006. Its gross turnover also increases comparatively to year2005 and reaches to 140% and the same rate inclines in 2007 and touches 160%. Despite various initiatives of the Government, illicit trade continues to remain the biggest challenge to the organized sector. The legitimate players had to take aggressive price increases during the year because of the increase in excise duties and Government's requirement for enhanced revenue. This resulted in decline in volume for the taxpaying segment while the illicit trade benefited. While the Government and the legitimate industry have taken several initiatives to reduce illicit trade, enforcement continues to be a major challenge. The Company will continue to push for and support the Government to increase its efforts to curb this menace. In 2008 company gross turnover rises and touches 192% but last year it inclines slightly and touches 226%. Business environment changed significantly in the latter half of the year when the Company had to take a significant increase in the prices of its products due to increase in excise duty by the Government in the Federal Budget 2009-10.

Net turnover

The company net turnover rate in 2004 is 100% because we are assuming it base year and in 2005 it increases and reached to 122% and it continually inclines in 2006 it was 145% and in 2007 it was 167% this is due to heavy government deregulations on Tobacco company but it rises in 2008 and touches 197% but in 2009 it inclines and touches 226%

Cost of sales

The adverse economic situation continued to exert pressure on the cost base of the Company. Material prices increased significantly due to high inflation and rupee devaluation. Moreover, severe power outages forced extensive usage of generators, which combined with the increase in utility prices, drove up the energy costs. The Company mitigated the effects of such factors through better resource management along with various cost control initiatives. As we can see that the company in 2004 cost of sales is 100% but it inclines in 2005 and reaches to 118% and in 2006 the cost of sales and is increases and becomes 137%and it inclines to 156% at the end of 2007 but in 2008 they sale very well and there cost of sales reaches to 190%. Now in last year the company sales incline and touch 220%. The cost of sales increases because government taxes increases in 2009 as compare to 2008 but they get raw material in relative low price than 2008.

Gross Profit

The gross profit of the company in 2004 is 100% but it increases when company operates in 2005 and touches to the 130% and it moves to the same increasing rate at the end of 2008 it touches 208% but in 2009 company work hard to rise it's G.P and they touches 236%.

Selling and distribution expenses

The expenses for company in 2004 is 100% but it increases in year2005 and touches 109% but in 2006 the company expense rise due to increase in salaries and touches 125% but in 2007 it's expenses are decreases and reaches to 124% but in 2008 it increases and touches 134% and in 2009 due to rise in salaries, selling expenses, freight, property expenses, rental expenses, insurance, travelling expense, maintenance expense rise there ratio and it rise to 155%.

Administrative expenses

The expenses for company in 2004 is 100% but it decreases in year 2005 and touches 96% but in 2006 the company expense rise due to increase in salaries and touches 108% but in 2007 it's expenses are 123%fast

increase in expenses due to external environment and recession but in 2008 it increases and touches 135% and in 2009 it increases to the 184% it is because of wages, fuel, repair, legal professional charges, depreciation etc. they have impact on administrative expenses.

Other Operating income

The income for company in 2004 is 100% but it decreases in year 2005 and touches to 55% a quick decrease in income company needs to improve if it's want existence but in 2006 the company income rise and touches 141% but in 2007 it's income is 491% a well stage good for the company reputation but in 2008 it decreases and touches 415% and in 2009 it increases to the 1552% a desire position that the company stake holder's wants. High excise led price increases combined with consumers' declining purchasing power due to the adverse economic situation in the country, triggered down trading to the low cost illicit sector. In order to defend its market position, the Company invested heavily in its brands and their distribution in an attempt to reverse the declining market demand. Selling and distribution expenses in 2009 were therefore, 16% higher than last year. The Company aspires to attract and retain high quality people by offering career advancement opportunities and competitive remuneration packages. The importance it attaches to its valuable human resource is evident from the fact that the Company continued to offer competitive remuneration packages to its employees during the year, despite tough operating conditions. In a significant step to ensure that its people operate in a conducive and world class work environment, the Company established a new state of the art Head Office building in Islamabad. This, along with inflation, increased our administrative expenses by 19% as compared to 2008. The Company received an insurance claim against damage to its previous Head Office building due to the Marriott bomb blast in2008, resulting in an extraordinary increase in 'other operating income'.

Improved cash management during the year, combined with higher interest rates, helped the Company post a significant increase in its finance income during the year versus same period last year

Other operating expenses

The expenses for company in 2004 is 100% but it decreases in year 2005 and touches 79% but in 2006 the company expense decreases again and touches to 65% but in 2007 it's expenses are 87% but in 2008 it increases and touches 161% it is due to recession and in 2009 it decreases to the 134%. In 2009 bank charges are low as compare to 2008 and they collect more funds in 2009 so that why they have negative ratio in 2009.

Operating profit

The profit earned from a firm's normal core business operations. This value does not include any profit earned from the firm's investments (such as earnings from firms in which the company has partial interest) and the effects of interest and taxes.
Also known as "earnings before interest and tax" (EBIT).It is includes in operating leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lesser are classified as operating leases. Payments made under operating leases are charged to profit and loss account on a straight-line basis over the period of the lease. The company operating profit in 2004 is 100% and in 2005 it inclines rapidly and comes on 193%. At the end of 2006 it becomes 263% and still the company continues in inclining rate and in 2008 it touches 358%. In 2009 company works hard and they rise there profit to 426% this is the big achievement for company.

Finance income

This Includes interest earned and similar items. The company finance income in 2004 is nil and in 2005 it is 100%. At the end of 2006 it becomes 180% and still the company continues in declining rate and in 2007 it touches 117%. In 2008 it increase 226% in 2009 company works hard and they rise there income to 390% this is the big achievement for company.

Finance cost

In general, price of obtaining loan capital. In comparison, funding cost refers to the price of equity capital. The company finance cost in 2004 is 100% and in 2005 it is 120%. At the end of 2006 it becomes 130% and still the company continues in declining rate and in 2007 it touches 121%. In 2008 it increases 122% and in2009 they touches 205%.

Profit before income tax

A profitability measure that looks at a company's profits before the company has to pay corporate income tax. This measure deducts all expenses from revenue including interest expenses and operating expenses, but it leaves out the payment of tax. The company profit in 2004 is 100% and in 2005 it inclines rapidly and comes on 197%. At the end of 2006 it becomes 270% and in 2007 it is 352% still the company continues in inclining rate and in 2008 it touches 368%. In 2009 company works hard and they rise there profit to 440% this is the big achievement for company.

Income tax Expense

The income tax reported on the income statement is the income tax expense which pertains to the revenues and expenses shown on the income statement. The income taxes to be paid in the near future are reported as a current liability. If a corporation has overpaid its income taxes, the income taxes to be refunded by the government are reported on the corporation’s balance sheet as a current asset. There are also balance sheet accounts for deferred income taxes. Deferred income taxes arise when a revenue or expense item is reported on the income tax return in a year that is different from the year the item appears on the financial statements. The tax expense for company in 2004 is 100%. it increases in year 2005 and touches 194% but in 2006 the company tax expense rise rapidly due to new tax policies implied by Government and touches 244% but in 2007 it’s tax expenses are 333% fast increase in taxes due by the government and in 2008 it increases and touches 348% and in 2009 it increases to the 416%.The tax expense for the year comprises current and deferred income tax, and is recognized in the profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in the equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred income tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

Profit for the year

Often referred to as the bottom line, net profit is calculated by subtracting a company's total expenses from total revenue, thus showing what the company has earned (or lost) in a given period of time (usually one year). Also called net or net earnings. The company profit at the end of year in 2004 is 100% and in 2005 it inclines rapidly and comes on 198%. At the end of 2006 it becomes 286% and in 2007 it is 363% still the company continues in inclining rate and in 2008 it touches 380%. In 2009 company works hard and they rise there profit to 454% this is the big achievement for company and the reputation of company is well in 2009.

EPS

Total earnings divided by the number of shares outstanding. Companies often use a weighted average of shares outstanding over the reporting term. EPS can be calculated for the previous year ("trailing EPS"), for the current year ("current EPS"), or for the coming year ("forward EPS"). Note that last year's EPS would be actual, while current year and forward year EPS would be estimates. The company EPS in 2004 is 100% and in 2005 it inclines rapidly and comes on 198%. At the end of 2006 it becomes 286% and in 2007 it is 364% still the company continues in inclining rate and in 2008 it touches 381%. In 2009 company reputation insist stake holder to buy shares and they gave large earnings on their shares to 455%.

Ratios:

Gross Profit Ratio

As gross profit ratio is gross profit divided by sales. As we can see that from 2004 to 2009 the sales are increasing and the gross profit is also increasing so due to it gross profit ratio is also increasing every year. It shows that company is in good condition as the sales are increasing due to increase in demand.

Earnings per share

Ownership of a corporation is evidenced by shares of capital stock. What does the net income of corporation mean to someone who owns, say 100 shares of a corporation capital stock? To assist individual shareholders in relating the corporation's net income to their ownership shares, large cooperation's compute earnings per share and show these amounts at the bottom of their income statements. EPS is income, expressed on a per share basis. 'Earnings per share' is one of the most widely used of all accounting ratios. The trend in earnings per share and the expected earnings in future periods are major factors affecting the market value of a company's share. 'Earnings per share' gradually increase from 2004 to 2009. This means that income on per share increases each year. It was 2.6 in 2004 and doubled in 2005. In 2009 it eventually became 11.83. This means that company is earning more by each passing year. 2010 saw a very sharp decrease in the EPS with the value falling down to a little over 3.5.

Inventory Turnover Ratio:

As we can see that from year 2004 to 2009 the inventory turnover ratio initially slightly increases then decreases but their overall ratio is very less. Basically an inventory turnover ratio is basically the number of times a company turns over its average stock in a year. As the ratios is almost near to 2.9 or less than it. This shows that there is a lot of demand for the product as the inventory is fully used in 2 or 3 days and then there is new inventory and then the cycle continues. This shows that their inventory.

Price Earnings Ratio

There has been an increasing trend in the ratios throughout the six years. However, we see a fall in the year 2007 but again a rise afterwards. Price earnings ratio tells us about the relationship between the earnings of the company and the market price of its stocks. So, higher the ratio is the greater is the market volatility of its share except for the year 2007. Since earnings per share also increases which means that the market price of a share also tends to increase. In year 2007, earnings per share increases but market price of a share fall which results in a decrease in price reining ratio.

Dividend Yield

To determine this ratio, dividends per share is divided by the closing market price per share of the company's common stock. The yield of the company has a rising trend except for a fall in 2007. This ratio tells us the return on the investment of a company. Company will always look for a higher dividend yield except for the year 2007. A lower value is not a bad situation rather it means growing with less income. In 2007 the company pays fewer dividends per share on the market price per share as compared to the other years that is working in low income.

Current Ratio

A current ratio of 1.15 was seen in 2005. Current assets were a lot more than the current liabilities. An enormous increase in receivables and cash balances was noticed. Stocks were also increased whereas interest accrued was reduced. PTC seems to be in a good condition. In 2006, current ratio was reduced to 1.11. This was a result of significant fall in the amount of loans and advances and receivables. Short term finance was increased which made the ratio fall to 1.11. In 2007, the ratio was further reduced to 0.96. This change was largely due to a huge rise in trade and other payables. As a result, current liabilities were more than current assets. In 2008, the ratio continues to reduce and was 0.91 and remained the same in 2009.
Again current liabilities were more than the current assets. This is because cash balances were reduced. Moreover, trade and other payables, interest accrued and income tax payable were increased.

Interest Cover Ratio

A large company like PTC will definitely look for its ability to meet the periodic interest payments. This ratio is important for long term payments. It is calculated by dividing earnings over interest expense. Till year 2007 there is an increase in the ratio showing the ability of firm to repay interest but it slows down and even falls till 2009. PTC faces an increase in annual interest expense to a larger amount compared to its operating income which results in low interest earned ratio.

Quick Ratio

The ratio is same like the current ratio. The only difference is that current assets like inventories are excluded that is assets which are a bit difficult to convert into cash quickly. This ratio varies with ups and downs but if compared 2009 with 2004 then the ratio decreases to a large value. This is because of the decrease in the quick assets like receivables as well as short term payments. On the other hand current liabilities keeps increasing

Return On Equity

PTC had a return on equity of 36.32 in 2005. It then increased to 46.02 in 2006. In year 2007, it soared up to 65.33. However, it improved to70.18 in year 2008 and was 70.94 in 2009. Return on equity is net income which represents the return from all sources both operating and non-operating. We analyze that return on equity increases each year. This means that income is increasing each year.

Account Receivable Turnover

A ratio that tells how many times a company converts its receivables into cash. This means that how many times it is able to get payments or can build up its cash. It is determined by dividing the net sales over average account receivables. PTC has increased trend except for the last year 2009 where the company collects the cash lesser times in a year. A higher turnover is in favor of the company.

No, of Days to Collect Receivables

This ratio tells us the same thing as does the turnover discussed above. We can say that it is another way of looking at receivables turnover. In fact it measures how many days it takes to collect an account receivable. There is one difference however, in this ratio and the turn over discussed above which is that their graphs will be totally opposite but telling the same thing.

Debt Ratio

This ratio measures the risk associated with creditor’s long term payments. A smaller value is favorable for the company since it is calculated by dividing the total liabilities to the total assets. There is a large variation in the ratios for PTC except for a large increase in the year 2007 which is bad for the company. This happens because total assets of the company increases to lower percentage as do the total liabilities of the firm. Also in year 2007, the company

introduces retirement benefits which increase the ratio even in the following year. It is removed in year 2009 and hence, the ratio also falls. The debt ration however increased again in 2010.