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An Appraisal of Alliance Bags Limited

Submitted To:
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East West University

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Prof.Dr.Tanbir Ahmed Chowdhury

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Mohakhali, Dhaka

Dear Sir,

Please find attached the report that you had assigned me as my project work. The topic of the report is “An Appraisal of Alliance Bags Ltd” and the company chosen is Alliance Bags Ltd.

It was very interesting to be able to apply my textual knowledge to analyze and interpret the financial statements of this company. As my major is in Finance this project has really helped to to imply all my textual knowledge and use them practically to analyse the performance of the company. This exercise enabled me to broadly and empirically understand the different views regarding the financial and principal activities of the company and efficiently uses all that we have been taught in my study period.

I extend my earnest gratitude towards you for providing me with the opportunity to work beyond the textbook and explore the practical work field. I enjoyed working on this topic and I hope that my efforts will meet with your expectations

Thanking you,

Kazi Nusrat Shahid

2006-01-10-096

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Executive summary

The main purpose of this report is to analyze the financial position of a company from the data and ratios presented in the annual financial report and also to appraise its principal activities. Accordingly, various measures have been used to determine the current and exact financial condition of the company. The company under scrutiny is Alliance Bags Limited (ABL). This report contains an appraisal of financial Performance and Principal Activities of Alliance Bags Limited. The period chosen for this analysis is Financial Years 2003-2007.

The methods undertaken for this appraisal includes the overall study of Alliance Bags Limited by analyzing its financial performance and principal activities. This included direct comparisons of the data from distinct topics of the financial statements published in the Annual Reports. Different parts of the annual report was analyzed and growth percentages of five financial years were conducted for every area to show the overall growth of the company.

This report has complemented the textual aspect of the course with an empirical experience. Working on this report was interesting and has given a unique and excellent experience of working in real-life situations.

CHAPTER 1

Introduction

1.1 Origin of the report:

This report was prepared for Prof.Dr.Tanbir Ahmed Chowdhury as per the requirement of the course Bus 498. The project is done on the appraisal of Alliance Bags limited.

1.2 Objectives:

The main objective of this report is to acquire an empirical lesson on the analysis of a business corporation's financial position and principal activities. Additional aims in line with the above objective include the following:

- Gathering some experience of working with real life financial statements to analyze the company's overall position.
- To appraise the performance of Alliance Bags Ltd
- Understanding how all ratios complement each other and why any particular ratio in isolation is not sufficient to draw a conclusion about the financial position of a company.
- To find out the areas that the company is suffering and give solutions for them.

1.3 Scope:

This report provides an assesment of Alliance Bags Limited's Principal activities and its Finnancial performance from the year 2003 to 2007.

1.4 Methodology:

The appraisal of Alliance Bags Limited has been carried out using the following methodology—

- Aanalysis of the income statements, balance sheets, profit and loss appropriation account and manufacturing and trading account of Alliance Bags Limited for the period under scrutiny were done. The base items for income statements and balance sheets were net sales, total assets and etc respectively.
- Text books and the internet were consulted for additional information and aid.

1.5 Limitations:

Many informations that were required to give a complete analysis of the company were not available, so there was insufficient data to do the work. Some informations were confidential to the company thus it was not made available for the public. Due to the unavailability of the data some analysis had to be excluded to make the report sufficiently ubiquitous.

CHAPTER 2:

An Appraisal of the Principal Activities of Alliance Bags Limited

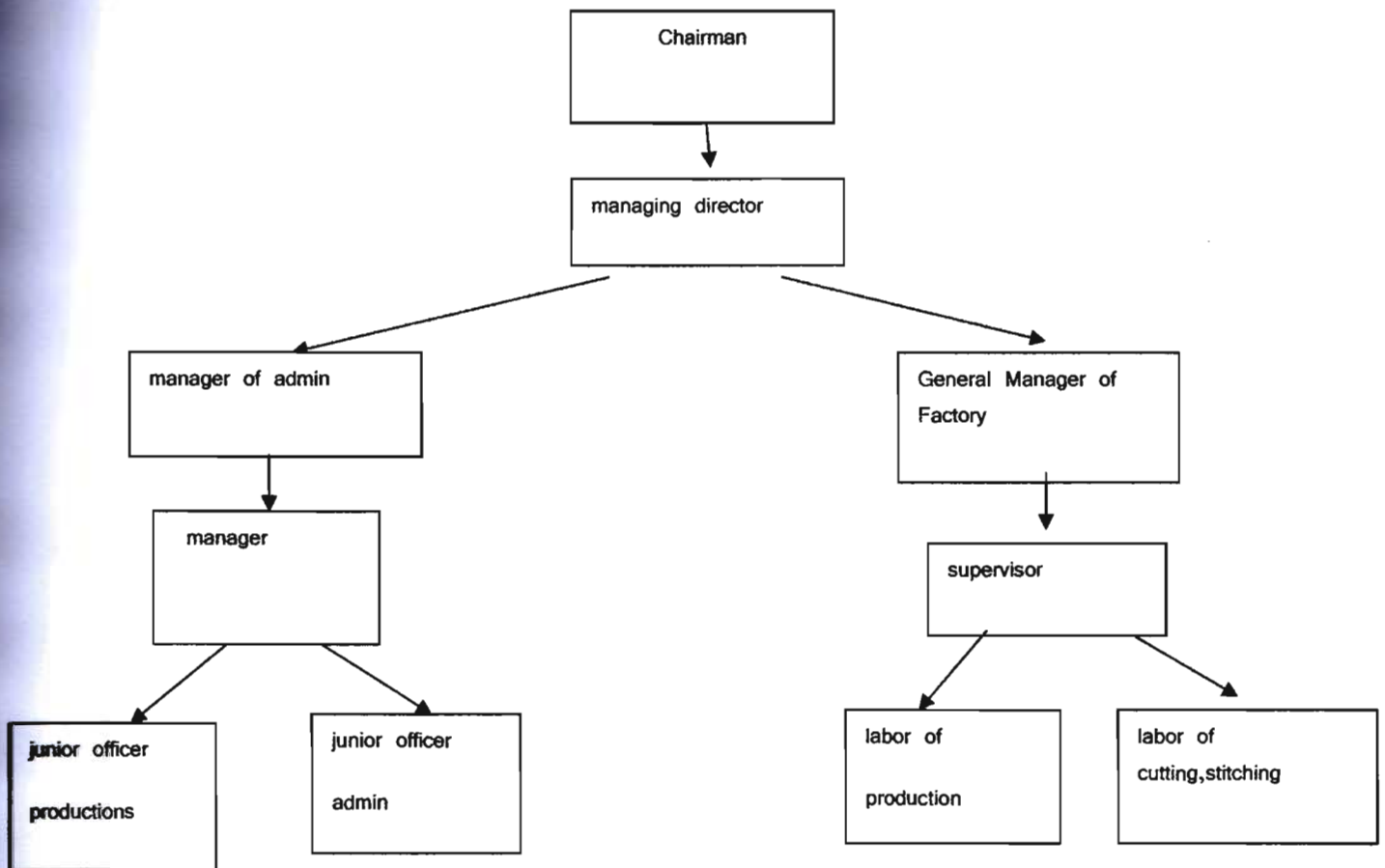
2.1 Overview of the company

Alliance Bags Limited was incorporated as a private limited company on 02 May, 2000 with an authorized capital of Tk. 50,000,000 equally divided into 4,000,000 ordinary shares with par value of Tk. 100 each. Alliance Bags Limited was one of the first privately held Polypropylene bags manufacturing company in Bangladesh. Alliance Bags Ltd has eight directors, in them two are active and the rest six are inactive. The company's production facility was established in 2001 with 1000 Metric Ton annual production capacity in Bhabanipur. Currently, Alliance Bags Limited's annual turnover ranges from US\$ 1.5 million to US\$ 2 million, the main markets being in Jessore, Chittagong, Tongi, Rangpur, Mohadevpur and Dhaka.

Alliance Bags Limited manufactures Polypropylene bags. The company aims to be the best PP oven sack manufacturing company of Bangladesh through continuous development and by producing high and consistent quality bags to meet all customers' requirements at all times. To achieve these objectives, Confidence Cement Limited uses modern state-of-the-art machinery to conduct its production process. It has 34 looms, 3 printing machines and other necessary machinery needed to complete the production. The manufacturing plant is situated in Bhabanipur in an area of 3 acres. The factory is very well equipped and modernized, with very good working conditions. There are total 200 employees who work in the factory, and 3 supervisors who supervise with a general manager

working as the head of the factory. Their office is in utara where all the administrative works are done.

2.2 Organizational Structure of Alliance Bags Ltd



2.3 Human Resource Management of Alliance Bags Limited

Alliance Bags Limited has started its operation in 2001 and it is a manufacturing company, as it produces PP oven sacks. Approximately 200 employees are needed to complete the production of US\$1.5 to US\$2 million worth of production. There are managers who supervise the working procedure, and they are led by the general manager. The working environment is very friendly and cooperative. There are two compulsory bonuses for all employees of Alliance Bags Limited, and also a certain percentage of increment every year. There is also the system of provident fund for all the employees so their futures are secured. There is also the system of paid leave but it is subject to the number of days. The recruitment of employees are mainly internal, but sometimes external recruitment is also conducted; especially in the times of crisis. The applicants are usually interviewed by the board of members where they are asked questions about their practical knowledge about the type of work they have applied for. Any complaints of any employees are directly dealt by the managing director.

2.4 Product of Alliance Bags Limited

Alliance Bags Limited produces Polypropylene Oven sacks from raw materials that are mostly imported. Raw materials have to be processed in certain steps to get the final product. Sacks demanded according to the want of the customers' specifications are supplied to them. Sacks of different size and colors are produced for its customers. The sacks are sold to the customers as a finished product which includes producing, cutting, sewing, coloring and printing the name of the company on the sacks, to earn maximum customer satisfaction.

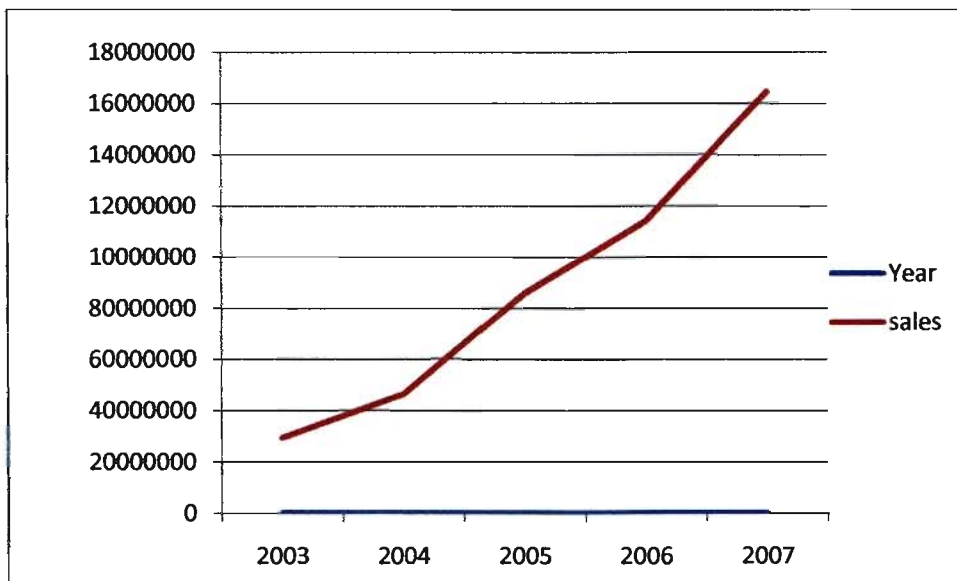
CHAPTER 3:

An Appraisal of the Financial Performance of Alliance Bags Limited

3.1 Sales:

Year	Sales	Growth Percentage
2003	29492581	----
2004	46357193	57.18%
2005	85978797	85.47%
2006	114242039	32.87%
2007	164451118	43.95%

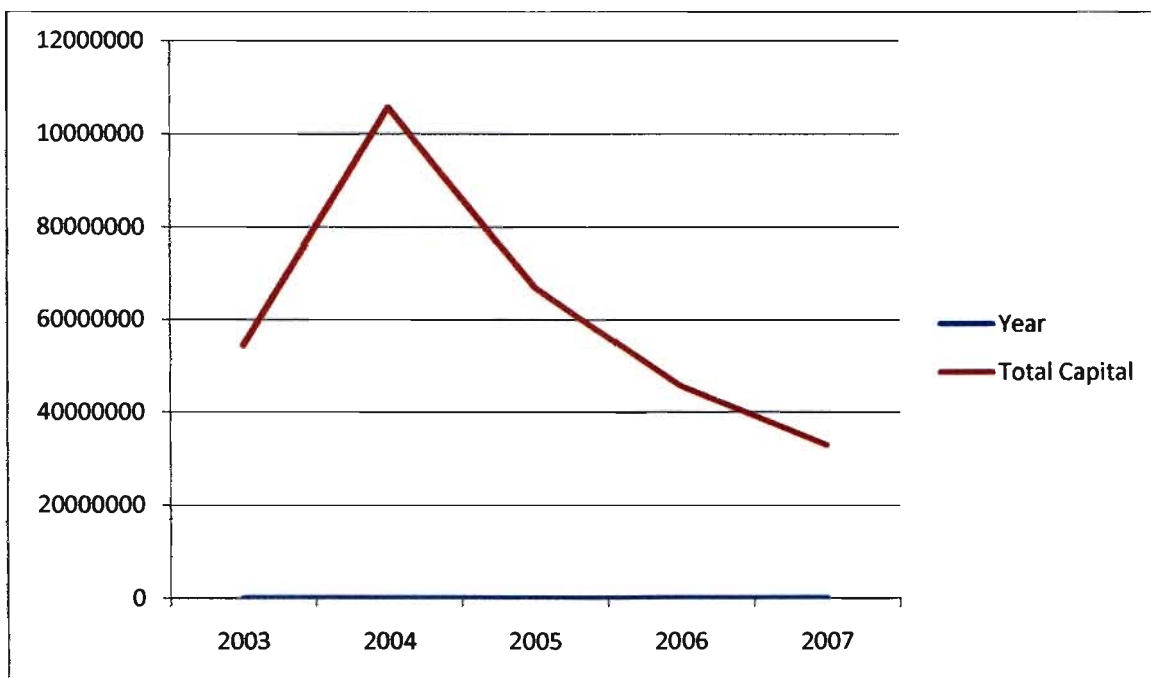
There has been growth in sales in all the five years of the operation. The highest growth is in year 2005 with 85.47% following with 43.95% in 2007 and 57.18% in 2004. The lowest growth is in the year 2006 with 32.87%



3.2 Total Capital Structure:

Year	Equity + Debt= Total capital	Growth Percentage
2003	$20599278+33984566=54583844$	----
2004	$19199958+86462767=105662725$	93.58%
2005	$21391138+45473792=66864930$	27.30%
2006	$19391138+26259811=45650949$	-31.73%
2007	$13000000+20071328=33071328$	-27.56%

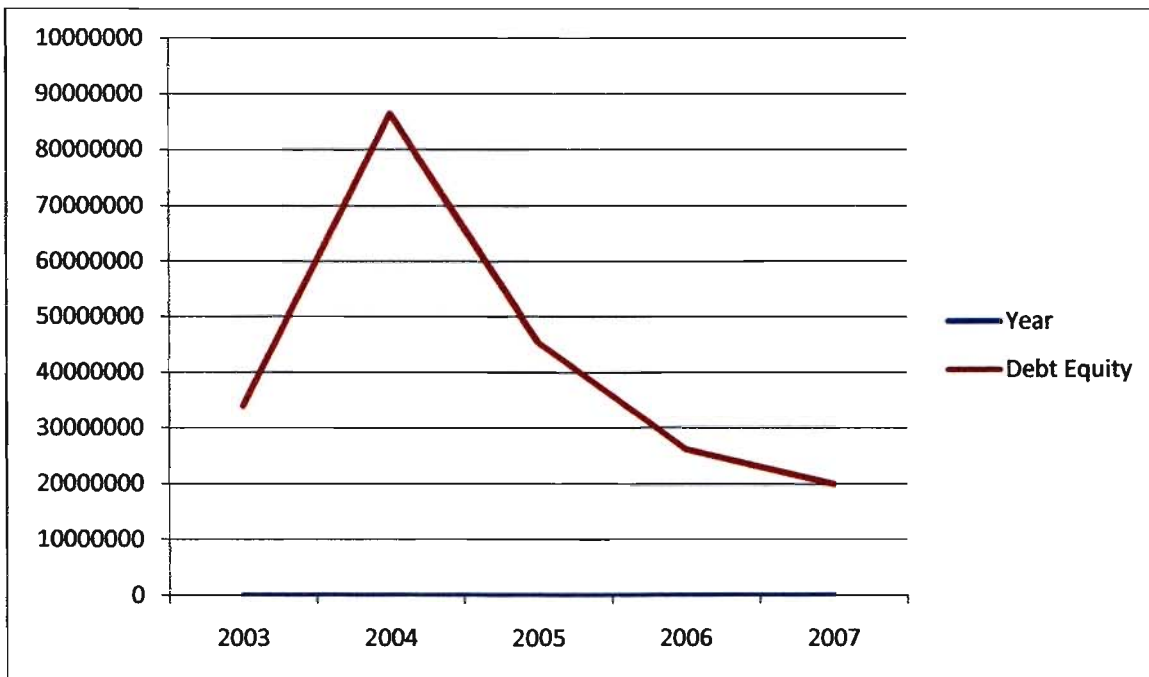
The growth has not been positive in any years but only in 2005 with 27.30% and with the highest growth in 2004 with 93.58%. In the remaining years the growth has been negative. The lowest growth has been on 2006 with -31.73%, following in the year 2007 with -27.56%.



3.3 Debt Equity:

Year	Debt Equity	Growth Percentage
2003	33984566	----
2004	86462767	154.41%
2005	45473792	-47.41%
2006	26259811	-42.25%
2007	20071328	-23.56%

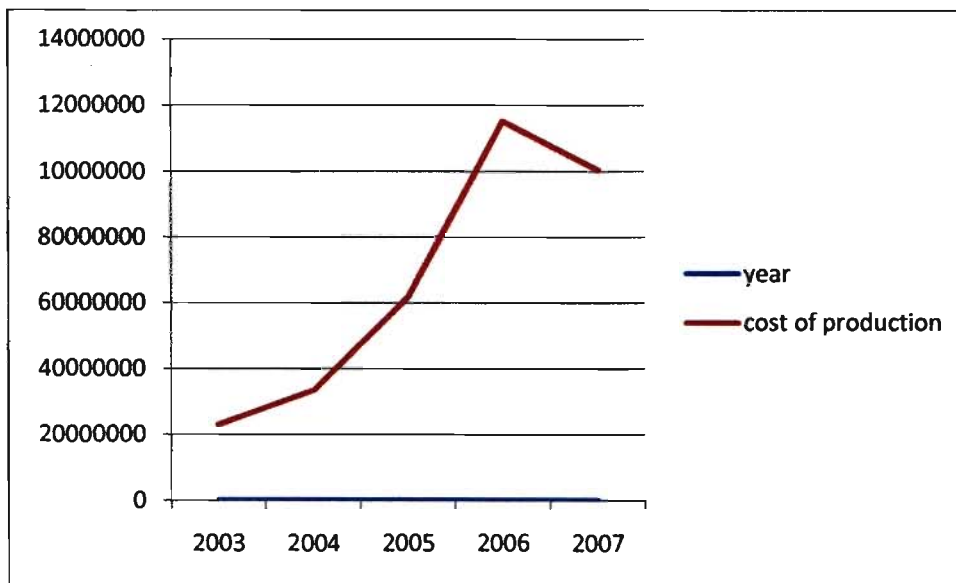
The debt equity has been negative in all the years except for 2004 with a positive growth of 154.41%. In the following years it has all been negative with the lowest in 2007 with -23.56%. The years between have been both negative growth with -47.41% in 2005 and -42.25% in 2006.



3.4 Cost of production:

Year	Cost of production	Growth Percentage
2003	23051448	----
2004	33600297	45.76%
2005	61998713	84.51%
2006	115203771	85.81%
2007	100478127	-12.78%

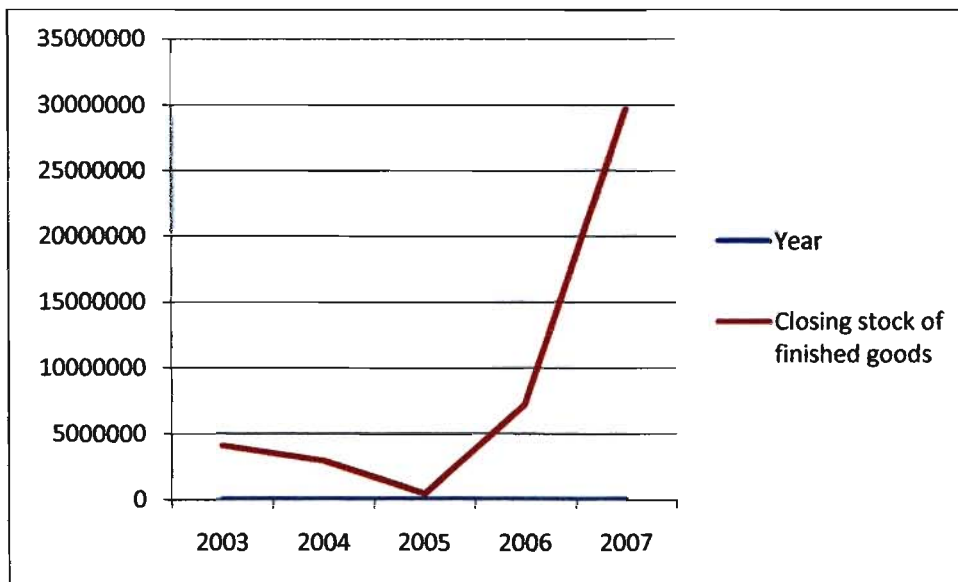
There has been a considerable growth in the cost of production in all the years. There highest growth is in 2006 with 85.81% and 84.51% in 2005 and a moderate growth in 2004 with 45.76%. There is negative growth in 2007 with -12.78%.



3.5 Closing stock of finished goods:

Year	Closing stock of finished goods	Growth Percentage
2003	4090356	----
2004	2930820	-28.35%
2005	445389	-84.80%
2006	7257031	1529.37%
2007	29618881	308.14%

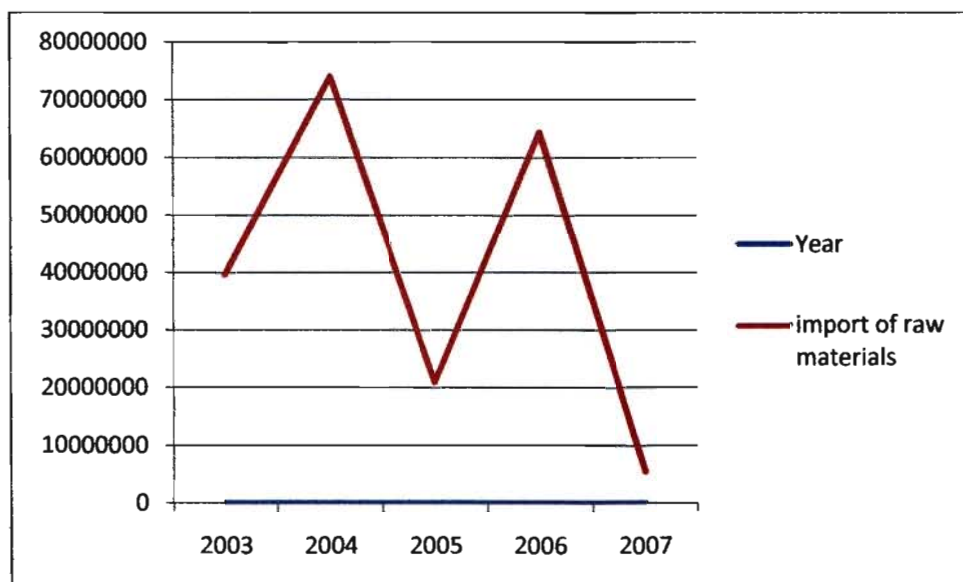
There has been a high negative growth in 2005 with -84.50% and in 2004 with -23.85%. but in the following years there has been a very high positive growth with 1529.37% in 2006 and a moderate growth of 308.14% in 2007.



3.6 Raw Materials:

Year	Import of raw materials	Growth Percentage
2003	39744560	----
2004	74009534	86.21%
2005	21000487	-71.62%
2006	64414912	206.73%
2007	5610736	-91.29%

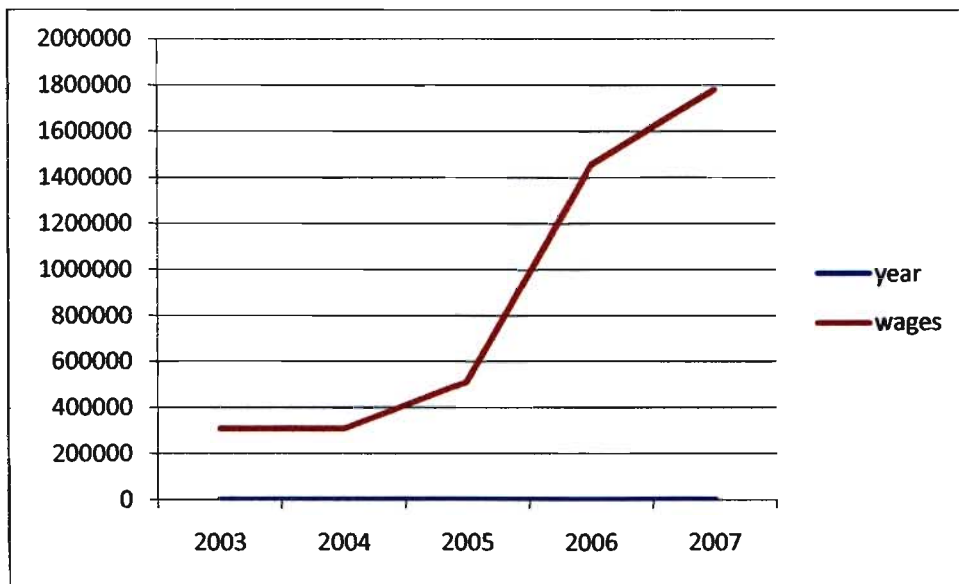
The growth of import of raw materials is drastically changing in these five years. In both the year 2005 and 2007 the growth is negative showing that import for this company is reducing. In year 2004 and 2006 the growth is positive with 86.21% and 206.73%. This table clearly shows no consistency in its growth in import of raw materials.



3.7 Wages:

Year	Wages	Growth Percentage
2003	309120	----
2004	309120	0
2005	512491	65.80%
2006	1456771	184.25%
2007	1779860	22.18%

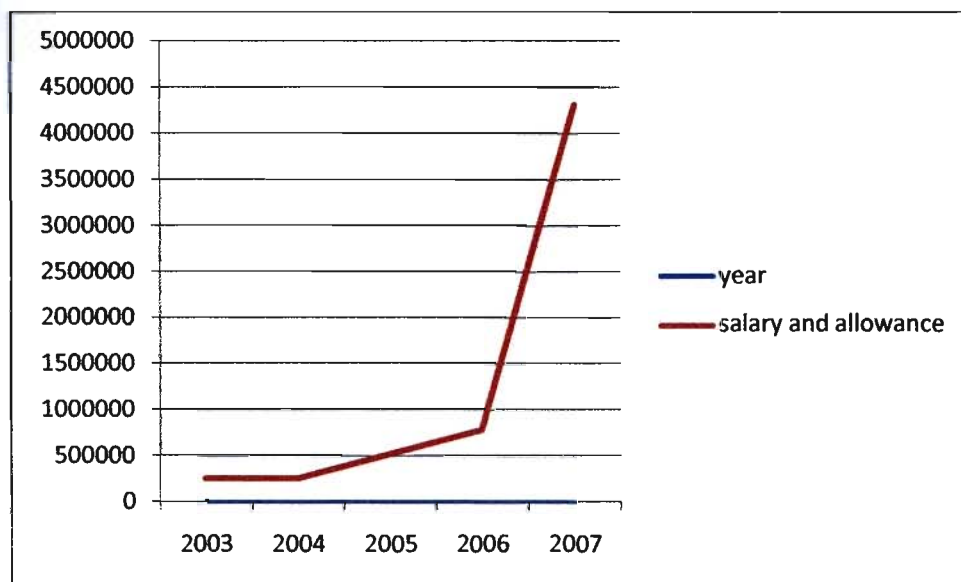
There has been growth in wages in all the five years which shows a very good wage policy of this company but the highest growth has been in 2006 with 184.25%. There has also been moderate growth in 2005 and 2007 with 65.8% and 22.18%.



3.8 Salary and allowances:

Year	Salary and Allowance	Growth Percentage
2003	264390	----
2004	264390	0
2005	520320	96.80%
2006	778458	49.61%
2007	4316000	454.429%

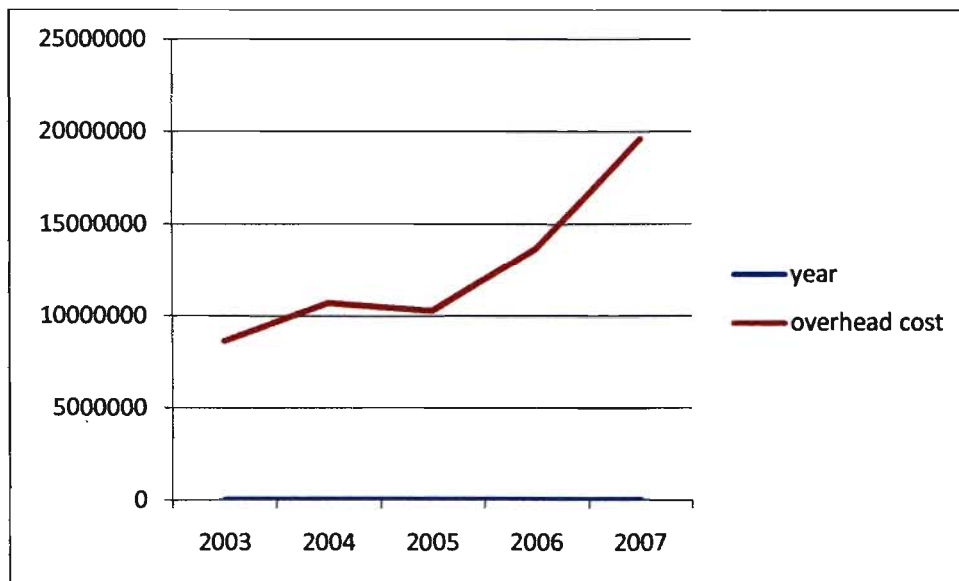
There has been consistent positive growth in all the years of its operation in salary and allowances. A huge positive growth can be noticed in 2007 with 454.429%. There is also a growth in 2005 with 96.80% and 49.61% in 2006 though there has been no growth on 2003.



3.9 General Overhead Cost:

Year	General Overhead Cost	Growth Percentage
2003	8688871	----
2004	10705562	23.21%
2005	10291951	-3.86%
2006	13718805	33.30%
2007	19616217	42.99%

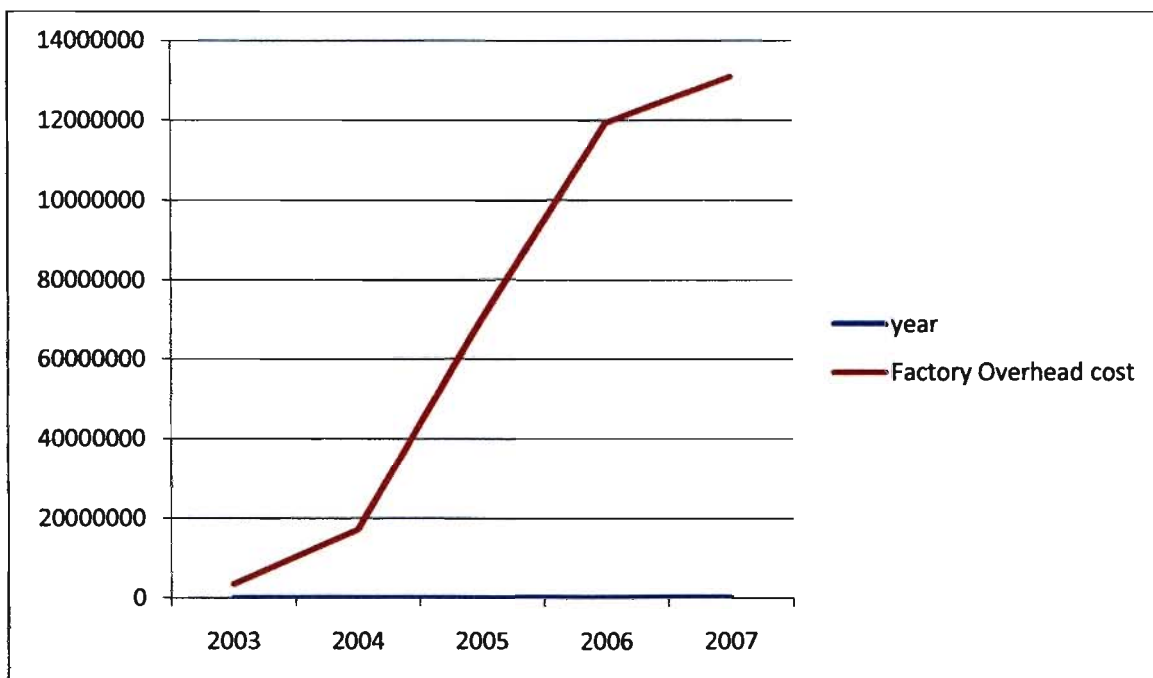
There has been growth in general overhead expenses in all the years except for 2005 where there is a negative growth of -3.86%. The highest positive growth has been in 2007 with 42.99%. There has also been a moderate growth in 2004 with 23.21% and 33.30% in 2006.



3.10 Factory Overhead Expenses:

Year	Factory Overhead cost	Growth Percentage
2003	3539528	----
2004	17162112	384.87%
2005	70059200	308.22%
2006	119335300	70.33%
2007	130876961	9.67%

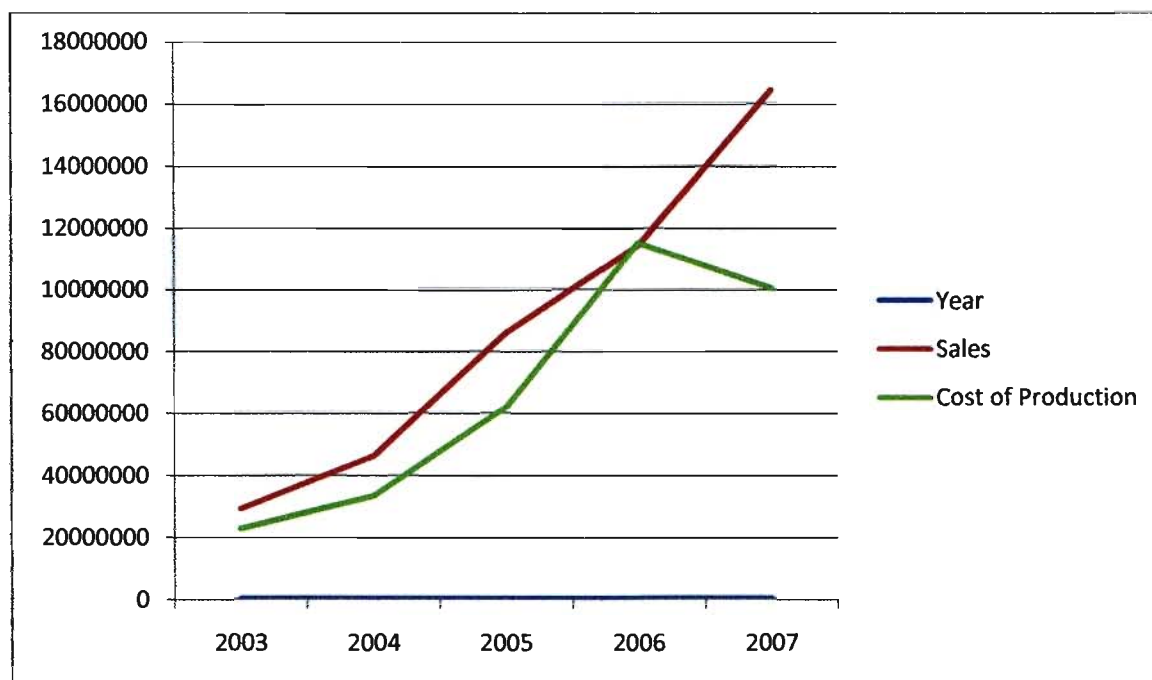
The factory overhead cost has been increasing in all these years. The highest growth is in 2004 with 384.87% and closely is 308.22% in 2005. The lowest growth is in 2007 with only 9.67% but a moderate with 70.33% in 2006.



3.11 Comparison between Sales and Cost of Production:

Year	Sales	Cost of Production
2003	29492581	23051448
2004	46357193	33600297
2005	85978797	61998713
2006	114242039	115203771
2007	164451118	100478127

This graph shows the comparison between sales and cost of production over the five years. Sales is increasing in all the five years and so is cost of production, but in 2006 cost of production decreased with sales keeping its positive growth, thus showing the production increment in efficiency.



CHAPTER 4:

Problems of Alliance Bags Limited

After analyzing the companies performance there are some problems that i came around. The debt of the company is decreasing with the years,this shows that there is not much expansion done in this 5 years,which is a bad sign for the company.

There also seems no consistency in the cost of the raw materials, and this factor should be fixed. The factory overhead costs and also the general overhead costs are increasing drastically over the years; this is increasing the overall cost of production of the company. The number of managers appointed in the company is not sufficient, thus making the whole working process not that much supervised.

CHAPTER 5:

Suggestions for Alliance Bags Limited

Alliance Bags ltd doesnt seem to have any expansion policy and this can be very threatening for the future,thus an expansion policy should be planned immediaty.

More efficient managers should be appointed so that the production process is more efficient, thus decreasing the factory and general overhead expenses.

CONCLUSION:

Through the analysis of the financial data of Alliance Bags Limited, it can be concluded that it is a business entity worth investing in. Existing shareholders would do well to retain their stake in the company. It has also been realized that different types of analyses must be utilized congruently to reach a reasonably reliable conclusion about the financial conditions of a company.

Despite the limitations faced, this analysis is sufficient to reflect the true financial situation of the company. The Principal Activities and the Financial performance of the company can give us a total view of the performance of the company thus helping us to find out the areas where the company is suffering and it also helped us to find out the positive attributes which can be used as the strength of the company.

Alliance Bags Limited is operating in the private sector where the demand for its products are increasing over time, and it shows that the future prospect of this company is very good.