# ACKNOWLEDGEMENT

At First we like to thank our beloved Allah we would like to thank our Professor Harish Chander for giving us the opportunity to enhance our knowledge on the subject. We are also grateful for his support and encouragement all throughout. We also thank our peer members who have enriched our knowledge with immense discussions on the topic.

**1. Profitability Ratios**

Profitability of a company is determined by profit margins and return they generate on assets and equity. Gul Ahmed and Nishat Mills, both include other income (that is, income earned over investments and sale/purchase of assets) as a part of their operational profit (named as EBITDA in statements). This significantly increase volume of their profit and loss statement.

**1.1 Gross Profit Margin**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 17.66 | 22.64 | 18.27 | 18.10 | 15.71 | 30.21% |
| **Nishat Mills Ltd.** | 10.92 | 13.05 | 11.81 | 14.44 | 17.25 |

* Gross profit margin showed an increasing trend up till 2016, after it declined in 2017. Due to replacement of inefficient machineries, cost controls and improvement of processes, it raised to maximum of 22.64% in 2016 which then decreased to 17.66% next year because of increase in cost of raw materials, mainly cotton whose production declined by 29% subsequently increasing its cost. Because of this, Gul Ahmed had to compromise on prices to retain their customers which in turn reduced their gross margin in 2017 as mentioned in Director’s Report.
* Nishat’s gross profit showed a declining trend except for 2016 which was comparatively better and was achieved through effective cost management. It again came down in 2017 due to increase in cotton prices and decrease in exports, which is mainly attributable to high cost of production as compared to that of its competitors.
* Gul Ahmed compared to Nishat Mills Ltd. is better throughout in terms of gross profit margins.

**1.2 Operating Profit Margin**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 8.19 | 10.49 | 9.28 | 10.66 | 9.59 | 7.84% |
| **Nishat Mills Ltd.** | 16.72 | 18.62 | 16.13 | 16.76 | 17.81 |

*Here, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is consider as operating profit for both companies*

* EBITDA to sales margin varied from 8% – 11% with lowest recorded in 2017. Other income doubled in 2014 helping operating profit afloat but declined to its lowest in 2017 due to increase in distribution and administrative costs as a result of expansion in both domestic as well as export markets.
* Nishat’s operating profit declined in 2017 due to increase in operating expenses which includes increase in minimum wages, fuel & power cost and increase in depreciation charge of the Company due to commissioning of new Garment unit. Thin gross profit in 2015 declined their operating profit although they managed to control their expenses efficiently. Good gross profit margin and controlled expenses was reflected in 2016 giving a boost to its operating profit. Nishat’s EBITDA is higher than its gross profit because of their heavy investments in different sectors, increasing their other income accounts which eventually increase their profits.
* Both of the companies include other income account in their EBITDA section. Nishat Mills get an edge over Gul Ahmed as their other income account is significantly larger.

**1.3 Net Profit Margin**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 2.05 | 3.54 | 1.81 | 3.74 | 2.35 | 7.35% |
| **Nishat Mills Ltd.** | 8.65 | 10.26 | 7.64 | 10.13 | 11.15 |

* Net profit margin fluctuates around 3% with lowest recorded margins was in 2015 and then in 2017, a 42% decline from 2016.
* Nishat’s net profit margin largely varied between 7% - 12% in past five years.
* Textile industry of Pakistan is facing challenges since last few years. The decreased exports mainly affected profitability of both companies. Exports declined due to power crisis, increase in cost of cotton, inconsistency in government policies, expensive fuel and increase in minimum wage. Moreover sales tax was disallowed on packaging material increasing indirect expenses for the company. All these factors resulted in low net profits and other margins.

**1.4 Return on Assets**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 2.22 | 3.54 | 2.42 | 5.08 | 3.35 |  |
| **Nishat Mills Ltd.** | 3.59 | 4.61 | 3.86 | 5.68 | 7.25 |

* ROA of both companies is depicting a concerning situation, means they are not utilizing their assets effectively. Energy crisis and thinning net profit margin could be some reason for this decline over past years.

**1.5 Return on Equity**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 8.34 | 14.37 | 8.75 | 20.43 | 14.36 |  |
| **Nishat Mills Ltd.** | 4.99 | 6.22 | 5.41 | 8.65 | 12.10 |

* This ratio shows that both companies are not giving optimum return to their shareholders which would in turn cause lower investments. Gul Ahmed ROE is better than Nishat Mills Ltd. This is a concerning point as ROE is important for future investments. Due to low returns, investment from shareholders can reduce which would ultimately impact their going concern.

**2. Leverage Ratios**

Leverage ratios show how levered the company is, that is, how much the company has taken debt from the market in comparison to its capital. It also shows the company’s ability to cover its interest expense through its operational income.

**2.1 Debt-to-Equity:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 40.0 | 34.0 | 34.0 | 53.0 | 65.0 | 79.16% |
| **Nishat Mills Ltd.** | 5.3 | 9.4 | 7.3 | 5.6 | 5.9 |

* There is a huge difference between the two companies when it comes to leverage. Gul Ahmed’s debt finance rose significantly in 2016 after staying constant in 2014 and 2015. In 2017, it reached an all-time high of 65%. Although Gul Ahmed’s debt finance is lower in 2014 and 2015, it is still significantly greater than Nishat Linen. Nishat Linen heavily depends on equity finance. This might show that Nishat Linen is not as much of a risk driven company as compared to Gul Ahmed. Gul Ahmed on the other hand does not hesitate while opting for debt finance to run their operations.
* When compared with the industry, both companies have a lesser percentage of debt finance, especially Nishat Linen which is way below. This means that both the companies are more reliant on equity finance than debt finance when compared with other textile companies in the industry.

**2.2 Debt-to-Total:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 27 | 24 | 24 | 33.8 | 38.8 |  |
| **Nishat Mills Ltd.** | 5.8 | 9.1 | 7.1 | 5.6 | 6.3 |

* Throughout the 5 years it is observed that Nishat Linen’s debt finance is below 10%. This is way below average debt finance of a company which is around 55% to 60%. Gul Ahmed’s debt finance is also below average but in comparison to Nishat Linen’s, it looks significantly higher.

**2.3 Interest cover:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 1.67 | 2.29 | 1.59 | 4.47 | 1.92 | 1.01 |
| **Nishat Mills Ltd.** | 4.93 | 4.71 | 3.52 | 6.47 | 6.49 |

* Interest cover of Gul Ahmed has been just above the benchmark in 2013, 2015 and 2017. Although Gul Ahmed has been relying on debt finance more than Nishat Linen, its interest cover has been questionable almost throughout the 5 years. On the other hand, Nishat Linen’s interest cover is much better than Gul Ahmed. Even though Nishat Linen has not been relying on debt finance, its interest cover suggests that if Nishat Linen had more debt finance, it could easily pay off the interest expenses.
* Both Gul Ahmed and Nishat Linen are in a better position to pay off their interests when compared with the industry. Although both have a lower debt finance percentage than the industry, they are however better equipped to pay their interests than other companies in the industry.

**3. Efficiency Ratios**

**3.1 Asset Turnover Ratio:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 1.09 | 1.00 | 1.34 | 1.36 | 1.43 | 0.69 |
| **Nishat Mills Ltd.** | 0.41 | 0.45 | 0.51 | 0.56 | 0.65 |

* Gul Ahmed’s asset turnover ratio has seen a decline from 2013 to 2017. Although it’s greater than 1 throughout the 5 years, it is still declining. This shows that Gul Ahmed has been using its assets effectively to generate sales. In 2016 it was on the bottom line of 1 but in 2017 it has seen an increase of 0.09. This means Gul Ahmed may be slowly improving in utilizing its assets.
* A similar trend can be seen in Nishat Linen. Asset turnover ratio is declining constantly from 2013. It has reached an all-time low in 2017 at 0.41. Nishat Linen has not been utilizing its assets effectively to generate sales. In 2016, the company did not even generate 50% sales from its assets.
* Gul Ahmed’s utilization of assets is much better than Nishat Linen. Although both are seeing a declining trend in their asset turnover ratio, but comparatively Gul Ahmed is generating more sales through its assets than Nishat Linen.
* When compared with industry average, Gul Ahmed utilization of assets to generate sales is much more effective. Nishat Mills on the other hand never reached the industry average mark in the past 5 years. This means Nishat Mills is not using its assets effectively to generate sales when compared with industry.

**3.2 Inventory Turnover Period:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 146 | 184 | 155 | 145 | 122 |  |
| **Nishat Mills Ltd.** | 94.32 | 88.83 | 93.35 | 92.88 | 86.90 |

* Gul Ahmed’s inventory turnover period has seen a fluctuating trend over the 5 years. Since 2013, it has seen an increase and in 2016 it reached its highest point. However in 2017 it again saw a decline.
* Nishat Linen’s inventory turnover is at the highest level in 2017. A similar trend to Gul Ahmed can be observed throughout the 5 years.
* Nishat Linen has been seen its inventory sold at a faster rate than Gul Ahmed. This shows that Nishat Linen’s performance in inventory has been better than Gul Ahmed in this span of 5 years.

**3.3 Account Receivable Collection Period:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 26 | 24 | 18 | 22 | 28 | 14.75 |
| **Nishat Mills Ltd.** | 17 | 20 | 21 | 31 | 34 |

* Gul Ahmed’s collection period in just less than a month in 2013 and it has never crossed 30 days over the years. This shows that Gul Ahmed has a strict 30 days credit policy that the company doesn’t compromise on. In 2015 the collection period was at the lowest, 18 days, but it has seen an increase since.
* Nishat Linen’s collection period is at the lowest in current year as it has seen a decline since 2015. This means Nishat has been effectively collecting payments from their debtors.
* Nishat Linen has improved its collection period over the years in comparison to Gul Ahmed. This means Nishat Linen’s cashflow is better than Gul Ahmed. Also, Nishat Line runs a lower risk of bad debts than Gul Ahmed.
* In comparison with industry, neither of the two companies was able to collect their payments within the industry average days. This means that both the companies would have poor cash flows when compared with the rest of the companies in the industry.

**3.4 Account Payable Payment Days:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 84 | 120 | 118 | 126 | 100 |  |
| **Nishat Mills Ltd.** | 84.88 | 78.71 | 62.5 | 50.34 | 45.57 |

* The account payable days has been increasing since 2013 until 2017 when it reached its lowest level of 84 days. This means Gul Ahmed is trying to pay off its creditors sooner than it was before.
* Nishat Linen’s payable days is also increasing. In 2017 it is almost identical to Gul Ahmed’s.
* Gul Ahmed has been holding off money in the early years from 2013 to 2016 by paying its creditors late. As compared to Nishat Linen who was keen on paying off its suppliers as soon as possible. This means that Gul Ahmed has a better cashflow than Nishat in the early years but it became identical in 2017.

**4. Liquidity Ratios**

It is a computation that is used to measure a company's ability to pay its short-term debts.

**4.1 Current Ratio:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 1.11 | 1.08 | 1.05 | 1.06 | 1.05 | 2.24% |
| **Nishat Mills Ltd.** | 1.26 | 1.32 | 1.26 | 1.34 | 1.51 |

* Current ratio of Gul Ahmed is gradually increasing which is greater than 1 throughout the five years 2013-2017. Gul Ahmed current ratios reflect that it has efficient fund management, reduction in bank borrowings and inventory levels have contributed in steady growth of net current assets. It always greater than 1 that means company is capable of paying off their liabilities from their current assets.
* Its current ratio is also increasing which is greater than 1 throughout the five years 2013-2017. Nishat has increased stock in trade levels from the last 5 years which is the reason of growth of net current assets. Current ratio shows that Nishat is capable to pay of its current liabilities from current assets.
* Current ratios of Gul Ahmed and Nishat mills Ltd. are 1.11 & 1.26 respectively for the year of 2017 which are greater than 1. Both companies’ current ratios have increased from last years. Gul Ahmed and Nishat current assets due to increased inventory levels are capable to pay off their short term obligations from current assets.

**4.2 Quick/acid test** **Ratio:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 0.37 | 0.26 | 0.24 | 0.20 | 0.27 | 1.13 |
| **Nishat Mills Ltd.** | 0.64 | 0.75 | 0.65 | 0.68 | 0.83 |

* Quick ratios of Gul Ahmed and Nishat mills Ltd. are 0.37 & 0.64 respectively for the year of 2017.
* The Quick ratios of Gul Ahmed and Nishat mills gradually increases and decrease year by year but throughout the five years it always less than 1.
* Both companies’ quick ratios reflect that they have fast inventory turnover period. Gul Ahmed is performing well it has more fast inventory turnover than Nishat mills ltd.
* Gul Ahmed have trade debts and accounts receivable as most liquid assets.
* Nishat has increased account receivables & trade debts to fulfil the requirement of most liquid asset to pay off its liabilities instantly.

**4.3 Cash Ratio:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 0.01 | 0.02 | 0.01 | 0.01 | 0.01 |  |
| **Nishat Mills Ltd.** | 0.00 | 0.11 | - | 0.13 | 0.06 |

* Cash ratios of Gul Ahmed and Nishat mills Ltd. are 0.01 & 0.00 respectively for the year of 2017.
* The Cash ratios of Gul Ahmed and Nishat mills gradually increases and decrease year by year but throughout the five years it always less than 1.
* Both companies have not planned to keep their cash and cash equivalent at level with their current liabilities because they can use a portion of idle cash to generate profits. This means that a normal value of cash ratio is somewhere below 1.00.
* In Gul Ahmed, increase in expenses and cash conversion into current assets and short term investments reflects that they are using their cash and cash equivalents efficiently but at a same time it’s not ideal because it is less than 1 which could be an alarming situation for the company if they are over trading and are not capable to repay its current liabilities.
* In Nishat mills ltd., increase in administration and distribution expenses due to the expansion of business is a alarming sign but according to statements they are utilizing their cash for short term investments and current assets to generate profits and liquidity risk is at the minimum due to the availability of enough funds through committed credit facilities from the Banks and Financial institutions.

**4.4 Net working capital:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **Industry**  **Average** |
| **Gul Ahmed** | 0.05 | (0.06) | 0.02 | 0.06 | (0.01) |  |
| **Nishat Mills Ltd.** | (0.03) | 0.10 | 0.10 | 0.09 | 0.01 |

* Net working capital of Gul Ahmed and Nishat mills Ltd. are 0.05 & 0.03 respectively for the year of 2017.
* Net working capital of Gul Ahmed and Nishat mills gradually increases and decrease year by year but throughout the five years it always less than 1.
* A ratio less than 1 is risky for Gul Ahmed and Nishat mills ltd. because it shows the companies aren’t running efficiently and can’t cover its current debt properly.
* At Gul Ahmed, it has increased sales than last five years but its operating profit margin in 2017 is lower than last five years which shows the increase in expenses which Gul Ahmed needs to look into it carefully.
* Increase in accounts receivable of Gul Ahmed in the year of 2017 then last years, shows that it is taking longer to collect money from customers.
* At Nishat mills ltd., the stores and spares (inventory) appears to be increasing over each year and sales are also increasing but cash flow is not reflecting it.
* Receivables also seem to be increasing every year but it means that it is taking Nishat mills ltd. longer to collect money from customers.

**DuPont Analysis**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Gul Ahmed** | **2017** | **2016** | **2015** | **2014** | **2013** |
| Net Profit Margin | 2.05 | 3.53 | 1.81 | 3.74 | 2.32 |
| Asset Turnover | 1.09 | 1.00 | 1.34 | 1.36 | 1.43 |
| Equity Multiplier | 3.74 | 4.05 | 3.61 | 4.02 | 4.28 |
| Du Pont | 8.34 | 14.37 | 8.75 | 20.43 | 14.19 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Nishat Mills Ltd.** | **2017** | **2016** | **2015** | **2014** | **2013** |
| Net Profit Margin | 8.65 | 10.25 | 7.64 | 10.12 | 11.15 |
| Asset Turnover | 0.41 | 0.45 | 0.51 | 0.56 | 0.65 |
| Equity Multiplier | 1.38 | 1.35 | 1.40 | 1.52 | 1.66 |
| Du Pont | 4.89 | 6.24 | 5.46 | 8.65 | 12.03 |

**Net Profit:**

Net profit margin of 2017 of both companies is low with respect to previous year. Textile industry of Pakistan is facing challenges since last few years which has significantly increased after 2016. Decreased exports mainly affected profitability of both companies. Moreover sales tax was prohibited on packaging material increasing indirect expenses for the company. On comparison, Nishat has better net profit margin than Gul Ahmed. This could be due to high sales revenue in almost all the years along with their other income.

**Asset Turnover:**

Asset turnover ratio of both the companies shows that Gul Ahmed is on lead and is managing its assets efficiently to generate more sales. Though there is a slight dip in year 2016 due to energy crises on Textile sector. On the other hand, Nishat is showing a decreasing trend which means they have more idle assets which cost them high indirect cost and lower sales volume.

**Equity Multiplier:**

Comparatively, Gul Ahmed has high equity multiplier which means they are more risky that Nishat Mills.

**DuPont:**

Overall, Nishat Mills is generating higher net profit margin at low risk as opposed to Gul Ahmed which is generating significantly less net profit margin at relatively high risk but ROE of Gul Ahmed is better than Nishat. Gul Ahmed’s ROE is unstable and inconsistent which is not a positive sign for investors as there is a drastic change in DuPont of the company especially in 2015 and 2017. Investors should invest in Nishat as the investment is secure, less risky and it has better Net profit margin.

**Industry Average**

**Table-1: Comparison of Profitability Ratios with Industry Average**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **S.no** | **Ratios** | **Industry**  **Average 5 years** | **Gul Ahmed**  **Average 5 years** | **Nishat**  **Average 5 years** |
|  | **Profitability Ratios** |  |  |  |
| Gross profit Margin | 30.21 | 18.47 | 13.49 |
| Operating profit Margin | 7.84 | 9.64 | 17.20 |
| Net profit Margin | 7.35 | 2.69 | 9.56 |
| Return on Equity |  | 13.25 | 7.47 |
| Return on Asset |  | 3.32 | 5.0 |

Table-1 shows comparison of Profitability ratios of both companies with industry average. Gross Profit margin of both companies is below industry average but comparatively Gul Ahmed is better. In terms of Operating Profit margin both companies are doing well from the industry. This can be attributable to heavy investments in different sectors, increasing their other income accounts which eventually has increased their Operating profits. Inspite of all the challenges that overall Pakistan’s textile industry is facing Nishat is able to maintain their Net profit Margin higher than the industry and its competitor.

**Table-2: Comparison of Leverage Ratios with Industry Average**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **S.no** | **Ratios** | **Industry**  **Average 5 years** | **Gul Ahmed**  **Average 5 years** | **Nishat**  **Average 5 years** |
|  | **Leverage Ratios** |  |  |  |
| Debt to Equity | 79.16 | 45.2 | 6.72 |
| Debt to Total |  | 29.52 | 6.78 |
| Interest Cover | 1.01 | 2.38 | 5.22 |

**Debt to Equity:** Both companies are well below the industry average in terms of debt finances. Especially Nishat Linen who’s average debt finance in the past 5 years is just 6.72%. Gul Ahmed almost has a 50% average debt finance but it is still below textile industry average which is almost 80%.

**Interest Cover:** Industry average for interest cover is 1.01 but both, Gul Ahmed and Nishat Linen, have a better average interest cover over the past 5 years than the industry. This means at 45.2% and 6.72% debt finance, both companies are better equipped than other companies in the industry to pay off their interests.

**Table-3: Comparison of Efficiency Ratios with Industry Average**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **S.no** | **Ratios** | **Industry**  **Average 5 years** | **Gul Ahmed**  **Average 5 years** | **Nishat**  **Average 5 years** |
|  | **Efficiency Ratios** |  |  |  |
| Asset Turnover | 0.69 | 1.24 | 0.51 |
| Inventory Turnover |  | 150.4 | 91.25 |
| Account Receivables Days | 14.75 | 23.6 | 24.52 |
| Account Payable Days |  | 109.6 | 64.4 |

**Asset Turnover:** Textile industry’s average asset turnover is 0.69 whereas Gul Ahmed’s average asset turnover over the past 5 years is 1.24. This means that Gul Ahmed is utilizing its assets more effectively than other textile companies in the industry to generate sales.

Nishat however has a lower asset turnover ratio than the industry. At 0.51, Nishat has not effectively utilized its assets over the past 5 years.

**Accounts Receivable Days:** Both the companies are not putting in enough efforts to receive payments from their debtors. The textile industry average for account receivable days is 14.75 days. Gul Ahmed has been taking 23.6 days and Nishat Linen 24.52 days to receive payments from suppliers and other debtors. This means that their cashflow has been negatively affected due to late payments received.

**Table-4: Comparison of Liquidity Ratios with Industry Average**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **S.no** | **Ratios** | **Industry**  **Average 5 years** | **Gul Ahmed**  **Average 5 years** | **Nishat**  **Average 5 years** |
|  | **Liquidity Ratios** |  |  |  |
| Current Ratio | 2.25 | 1.11 | 1.54 |
| Quick/Acid ratio | 1.13 | 0.36 | 0.83 |
| Cash Ratio |  | 0.012 | 0.06 |
| Net working Capital |  | 0.012 | 0.054 |

Table-4 shows comparison of liquidity ratios of both companies with industry average.

**Current Ratio:** Both companies’ current ratios are below than industry average but comparatively Nishat Textile mill is trying to increase its current ratio than last five years. In terms of current ratio both companies are above the ratio of 1 that means they are capable of paying off their liabilities from their current assets but both companies have need to improve its liquidity position.

**Quick/Acid Ratio:** Both companies’ quick ratios reflect that they have fast inventory turnover period than Industry Average because it’s less than 1. Both companies has increased account receivables & trade debts to fulfill the requirement of most liquid asset to pay off its liabilities but to meet the industry average both companies should increase their current assets other than inventory.

**Conclusion:**

Average Gross profit margin of Gul Ahmed is greater than Nishat Linen over the 5 year period. The increase in cost of production for Nishat Linen is the main reason behind an average gross profit margin of just 13.49% as compared to Gul Ahmed’s 18.47%. This doesn’t mean that Gul Ahmed is performing at optimal level. Both the companies’ average gross profit margins are still below the industry average of 30.21%.

Operating profit margin of Nishat Linen (17.20%) is better than Gul Ahmed (13.49%) because Nishat controlled their expenses better than Gul Ahmed. High operating expenses resulted in Gul Ahmed’s operating profit margin taking a hit after a good gross profit margin.

Subsequently, net profit margin of Nishat (9.56%) is better than Gul Ahmed (2.69%). The high interest expense of Gul Ahmed has contributed to this low net profit margin. Also, high interest expenses meant that Gul Ahmed’s net profit margin was going to be lower than Nishat Linen’s as Nishat doesn’t have much debt finance.

Gul Ahmed was able to generate more profits through their equity finances than Nishat. Gul Ahmed average return on equity is 13.25% as compared to Nishat’s 7.47%. This means Gul Ahmed utilized its equity finances in a more efficient manner than Nishat.

However, Nishat had a better average return on assets than Gul Ahmed. Nishat has been generating more profits through its assets (3.32%) than Gul Ahmed (5%)

In terms of leverage ratios, Gul Ahmed is a high risk company as it has an average of 45.72% debt finance. It is still below the industry average of 79% but as compared to Nishat Linen, that has a minimal average debt finance of 6.72%, it is considerably high.

Just like debt to equity, the debt to total ratio also differs significantly between the two companies. At 29.52% average debt to total ratio, Gul Ahmed has more debt finances than Nishat 6.78%.

Both the companies are better equipped to pay off their interest expense when compared with the industry. However, Nishat Linen has more resources than Gul Ahmed for their interest expense as Nishat Linen’s interest cover is 5.22 and Gul Ahmed has 2.83.

Gul Ahmed is better at utilizing its assets to generate sales when compared to Nishat. Gul Ahmed’s asset turnover ratio is 1.24 as compared to Nishat’s 0.51. This means Gul Ahmed is generating more sales through its assets than Nishat.

Gul Ahmed has a higher average turnover period (150.4 days) than Nishat Linen (91.25 days). This means that Nishat Linen’s performance in selling out its inventory is more efficient than Gul Ahmed.

Gul Ahmed has been receiving payments from its debtors earlier than Nishat. On Average, Gul Ahmed received payments within 23.6 days as compared to Nishat 24.52 days. This means that Gul Ahmed had a slightly positive effect on its cashflow because of this.

Nishat has been keen on paying off its creditors as it has paid off its creditor within an average period of 64.4 days within the past 5 years. This is significantly earlier than Gul Ahmed account payable days (109.6 days). This means that Gul Ahmed will have a more positive impact on its cashflow than Nishat.

The current ratio suggests Nishat Linen is better equipped to pay off its short term liabilities as compared to Gul Ahmed. Nishat Linen’s average Current Ratio of 1.54 is better than Gul Ahmed’s 1.11. However, both the companies are below industry average of 2.25.

After deducting the inventory, Nishat has more resources to pay off its short term liabilities than Gul Ahmed. However, both are in danger zone as both have less than 1 quick ratio. That means both companies have less assets to pay off its liabilities.

Nishat’s cash ratio is better than Gul Ahmed that suggests that Nishat has more cash and other liquid assets to pay off its short term liabilities.

**Recommendations**

* Gul Ahmed should try to control its operating expenses which is resulting in a lower operating profit and net profit margin.
* Nishat has been failing to effectively produce finished goods as the gross profit margin is continuously on the rise. It should try to control its cost of goods sold
* Even though Nishat’s equity finance has a majority share in the company’s capital structure, it is not able to efficiently use it to generate profits. The company should come up with strategies to utilize equity finance or use debt finance.
* Nishat should utilize its assets more effectively to generate more sales. As seen from the analysis, Nishat’s asset turnover ratio is falling below industry average.

https://www.reuters.com/finance/stocks/financial-highlights/NISM.KA

https://www.reuters.com/finance/stocks/financial-highlights/GULA.KA