

Ratio Analysis

Financial Ratios	Pioneer Distilleries Limited			
	FY2006 (12m)	FY2005 (12m)	FY2004 (18m)	FY2002 (18m)
Solvency				
Short Term Solvency				
Net Working Capital (Rs in Millions)	119.6	134.7	64.4	53.3
Current Ratio	5.3	8.7	7.0	5.8
Quick Ratio	2.8	5.2	4.1	3.9
Average Daily Expenses (Rs in Millions)	0.9	1.1	0.7	0.6
Cash Cover for Daily Expenses (days)	5.5	3.0	4.3	2.2
Quick Assets Cover for Daily Expenses (days)	81.6	80.5	65.9	72.7
Current Assets Cover for Daily Expenses (days)	157.4	135.9	111.7	107.6
Current Liabilities Cover for Daily Expenses (days)	29.6	15.5	15.9	18.7
Accounts Receivable Turnover	136.6	153.4	157.6	118.7
Average Collection Period (days)	2.7	2.4	2.3	3.1
Inventory Turnover	4.9	8.4	9.0	10.0
Inventory Conversion Period (days)	74.0	43.6	40.5	36.4
Average Payables Period (days)	20.1	7.4	6.7	10.6
Long Term Solvency				
Total Debt to Total Capital	4.7	4.7	5.3	19.1
Long-term Debt to Total Capital	4.4	4.5	5.1	18.5
Long-term Debt to Fixed Assets	1.1	1.1	1.0	1.1
Interest Cover	1.9	4.5	-0.2	-0.2
Times Fixed Charges Covered	0.5	0.5	-0.1	-0.1
Net Gain from Borrowed Funds (Rs Millions)	58.7	42.7	14.9	18.3
Equity Multiplier	5.7	5.7	6.3	20.0
Profitability				
Margin on Sales				
Gross Profit Margin (%)	21.2	15.6	20.1	19.8
Operating Profit Margin (%)	8.4	4.6	-3.2	-4.7
Net Profit Margin (%)	3.2	2.0	-18.1	-22.9
Return on Investment				
Operating Profit to Operating Assets (%)	6.4	4.8	-2.4	-3.1
Net Income to Total Assets (%)	2.5	2.1	-13.4	-15.0
Return on Equity (%)	14.1	12.5	-130.0	-301.0
Efficiency of Use of Assets				
Total Asset Turnover	0.8	1.0	0.7	0.7
Operating Asset Turnover	0.8	1.0	0.7	0.7
Working Capital Turnover	3.3	4.6	5.0	4.9
Shareholder Equity Turnover	4.4	6.1	7.2	13.1
Return per Share of Equity				
Earnings per Share	1.4	0.9	-5.7	-6.5
Dividends per Share (including Dividend Tax)	0.0	0.0	0.0	0.0
Other Ratios				
Book Value per Share	10.2	8.9	6.6	2.2
Dividend Payout Ratio (%)	0.0	0.0	0.0	0.0
Price-to-Book Value	2.4	1.6	1.6	4.2
Price-to-Earnings	18.5	15.3	-1.8	-1.4
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Gearing (%)	12.2	10.2	4.6	4.8

The above ratios have been computed using the ratio definitions in the book 'Financial Accounting for Management' by Ramachandran and Kakani, 2/e, McGraw Hill Higher Education, 2007.

The ratios give lot of insights about the company:

Liquidity

- ◆ The company's short-term liquidity position is surely improving (especially refer to the ratios current assets cover for daily expenses; and cash cover for daily expenses).
- ◆ The company's operating cycle is increasing due to increasing inventory conversion period (probably due to the higher value addition / backward & forward integration being done inside the company among others).
- ◆ The company's long-term solvency position is improving but still highly stretched (is it planned?).
- ◆ The net gain from borrowed funds is impressive indicating debt is doing good to the company.
- ◆ The interest cover ratio has turned positive indicating some level of comfort for the long-term lenders.

Profitability

- ◆ The profitability has significantly improved due to improving profit margins and the equity multiplier effect.
- ◆ The operating profit margin and net profit margins have improved very nicely.
- ◆ The asset utilization levels have not changed much (is it part of a planned move OR industry norms!).

Market-based Ratios

- ◆ The improving P/E and P/BV ratio indicates that the capital markets have noticed the turn around and have resulted in increased share prices. They are betting on a better future.

This table consists of the ratios of Pioneer Distilleries and its peer, United Breweries.

Ratios	Pioneer Distilleries		United Breweries	
	Mar '05	Mar '06	Mar '05	Mar '06
Gross Profit Margin	8.04	8.49	5.66	12.51
Operating Profit Margin	9.31	13.02	11.66	15.15
Earnings Before Interest & Tax	5.09	8.27	9.98	12.85
Profit Before tax	3.80	3.76	3.99	6.84
Net Profit Margin	2.15	3.04	2.22	3.31
Operating Profit To Operating Assets	8.23	10.29	19.08	16.7
Net Income to Total Assets	88.86	68.42	19.09	15.02
Return on Equity	11.04	12.33	25.31	14.6
Total Asset Turnover	0.96	0.73	1.06	0.93
Operating Asset Turnover	0.89	0.8	1.63	1.27
Working Capital Turnover	37.61	51.6	9.56	5.57
Shareholder Equity Turnover	3.93	3.53	2.51	1.78
Earnings per Share	1.35	0.94	5.41	4.36
Earnings to Price	7.50	5.22	2.00	1.61
Dividends per Share	0	0	0	0
Net Working Capital	-7.02	-10.93	66.09	329.34
Curent Ratio	1.73	1.54	1.8	1.81
Quick Ratio	13.52	9.6	74.5	152.39
Accounts Recievable Turnover	2.48	1.53	5.44	1.34
Collection Period	147.18	238.56	67.10	272.39

Inventory Turnover	9.39	6.67	14.42	14.84
Conversion Period	147.2	238.6	67.1	272.4
Total Debt To Total Capital	306%	308%	111%	50%
Long-Term Debt To Total Capital	179.47	161.2	72%	49%
Long-Term Debt To Fixed Assets	56.2	47.04	59.06	71.11
Interest Cover	4.04	1.83	1.67	4.87
Times Fixed Charges Covered	1.69	1.4	1.52	2.38
Equity Multiplier	4.4	4.377	1.53	1.4

Comments:

- Strictly speaking United Breweries and Pioneer Distilleries are not comparable. But, given lack of complete data for good peers, the above data a few comments are listed below.
- From the Net income to Total Assets ratio, it can be inferred that Pioneer distilleries does not do much investments when compared to United Breweries.
- Even though the Net Profit Margin of both Pioneer and United Breweries, were increasing, the Total Assets Turnover has decreased. This means that the companies have not introduced in Assets.
- Pioneer Distilleries suffered a major loss in 2002 - 2003. From then on they have been paying for their losses from the profit. This being the case, the Total Debt to Total Capital ratio is very high. Whereas the Long-Term Debt to Total Capital ratio is decreasing because Pioneer Distilleries is having increasing internal accruals (accumulated profits).
- The Net Working capital of Pioneer Distilleries is negative because it had incurred a heavy loss and had taken loans to pay for the losses.
- Both the companies do not pay any dividend.

References:

- 1) Annual Report of Pioneer Distilleries, 2005 – 2006
- 2) Annual Report of Pioneer Distilleries, 2004 – 2005
- 3) Annual Report of United Breweries, 2005 – 2006
- 4) Annual Report of United Breweries, 2004 – 2005