SIEMENS ENGINEERING PAKISTAN LTD.
ANALYSIS OF FINANCIAL STATEMNTS

INTRODUCTORY:

The overall analysis showed that the Siemens Engineering Pakistan Ltd. was also affected by the international crises, domestic economic crisis, political uncertainties, law and order situation etc. but they managed to control the situation and act brilliantly in such difficult time due to which the company not only stabilized but also performed well. In 2008 company has performed well, their profits were good, earning per share was high, liquidity position was good and their cash flows were positive, but after 2008 the company financial position changed due to above stated reasons and showed decline in various items. In 2010 their revenue declined but expenses got high due to which their profit decreased. Their cash flows were negative and there was also decline in various ratios which showed that company's performance was not good but after comparing from last year it indicated that company has worked hard and tries to maintain its position at a last year.

ANALYSIS:

CAPITAL STRUCTURE:

The Paid Up Capital of Ordinary Shareholders of 2010 have not changed as compared to last 3 year. However, the total shareholder's equity increased by 3.72 percent from Rs. 6,911 million to 7,168 million during 2010 due to increase in reserves. It is a good sign that company is still having profits and making reserve but if we compared this increased percentage with the last two year's increased percentage then it seemed that company is in declining stage because in 2009 and 2008 the share holder's equity was increased by 9.9 percent and 17.7 percent respectively and it is due to the decrease in profit in 2010.

The total Fixed Liabilities decreased by 13.24 percent from Rs.197.8 million to Rs. 171.6 million during 2010. It seemed that company have paid or cleared some Fixed Liabilities during 2010 which is a good step to maintain gearing ratio, but still company's Fixed Liabilities are too high as compared to Rs.106.09 million in 2008 and Rs.113.68 million in 2007.

LIQUIDITY:

The analysis indicated that the liquid position of a company is still good. After analyzing three years data it indicated that liquid assets (Cash & investment) in 2010 decreased by 59 percent from Rs. 3407.2 million to Rs.1396.2 million as compared to 2008 but after compared to 2009 it seems that company able to maintain its liquid assets. It decreased only by 0.5 percent from Rs.1396.2 million to Rs.1403.1 million during 2010.

The position of Working Capital has shown an increasing trend during last four years. During 2010 it was Rs.3545.7 million, which showed an increase of 9.71 percent over Rs.3230.8 million in 2009 and it is due to the major increase in trade receivables of Rs1081.9 million, which is approximately 8 percent. Further it is mentioned that the current liabilities of a company increased by 0.14 percent from Rs.17347 million in 2009 to Rs.17372 million in 2010 which is due to the major change in short term running finances. It seems that company is depending on external parties for finance for short term period. It indicated that current liabilities have increasing trend during last few years but the current assets have also increased during last few years due to which working capital is still showing a positive sign. It showed that company has very stabilized liquidity position. Company can cover its current liabilities very easily.

NON TANGIBLE ASSETS:

The position of Tangible Fixed assets showed that the book value increased by Rs.12.76 million from Rs.1668.53 million (2009) to Rs.1681.27 million (2010), which is 0.76 percent as compared to 2009. The change in tangible Fixed assets is due to the purchase and installation of some new buildings, machinery, tools, equipment and vehicle. In 2009 over 2008, the addition of new assets was increased by 82.67 percent but in 2010 over 2009 the addition of new assets was decreased by 65 percent, it seems that company didn't invested too much in capital expenditure for further growth and tried to capitalize on existing assets to stabilize their position. However, other non-current assets decreased by 4.37 percent form Rs.2209.68 to Rs.2113.1 during 2010 due to the major change in long terms loans and receivables. It seems that some executives, other employees and trade debtors have paid some amount due to which long term loans and receivables decreased which affected non-current assets to decrease. The total assets in 2010 of Rs.24541.1 million increased by 1.16 percent (282.54 million) as compared to Rs.24258.4 million in 2009 which is due to increase in current assets of Rs 366.5 million.

OPERATIONAL ACTIVITIES:

The net sales during 2010 were Rs.26248 million which was decreased by 27 percent as compared to the amount of Rs.36149 million in 2009. The major factor involves in reducing sale is the cancellation of contracts signed by the parties from outside the Pakistan (Dubai, U.A.E., Afghanistan). The project was to construct high voltage substation but it seems due to the global financial crisis particularly in Dubai and U.A.E., the project was cancelled. The reason for cancelling the projects was not defined. Approximately contracts of Rs.10833 million have cancelled from outside the Pakistan. Due to decrease in sales, the gross profit also decreased by 2.7 percent from Rs.3984.4 million to Rs.3875.2 million during 2010. It is still a good sign because according to vertical analysis of 2009, the gross profit should be around Rs.2893 million or 11 percent but it is Rs.3875.2 million in 2010 or 14.7 percent, it showed that gross profit increased by 34 percent from 11 percent to 14 percent during 2010.

Vertical analysis

Items	2009		2010	
	Rs.	%	Rs.	%
Sales	36149.39	100	26248.8	100
Gross Profit	3984.49	11.02	3875.3	14.76

And if we analyze three years data it showed that gross profit is decreasing annually but in 2009 the revenue was huge as compared to 2008 but still gross profit of 2009 i.e. Rs.3984.4 million was not more than the gross profit of 2008 i.e. Rs.4013.9 million and it is due to the exchange loss of Rs. 620 million, however in 2008 there was a exchange gain of Rs.928.1 million.

The expense and overhead showed that instead of decreasing, the expense and overhead increased by 6.5 percent from Rs.1844.1 million in 2009 to Rs.1964.8 million in 2010. The major impact on increasing of expense is a new expense introduce in 2010 i.e. factoring of trade receivables. Due to increase in expense, the operating profit decreased by 15 percent from Rs.2327 million to Rs.1978.1 million during 2010 and according to vertical analysis the gross profit increased by 14.57 percent from 6.437 percent to 7.536 percent during 2010.

Vertical analysis

Items	2009		2010	
	Rs.	%	Rs.	%
Sales	36149.39	100	26248.8	100
Operating Profit	2327.22	6.437785	1978.17	7.53623

Net financial expense were Rs.399.8 million in 2010, showed an increase of 118 percent as against Rs.182.7 million in 2009, due to the increase of bank charges, which increased by 86.14 percent from Rs.137.76 million to Rs.256.44 million and decrease in income from short term deposit account, which decreased by 85.25 percent from Rs.114.32 million to Rs16.86 million during 2010. It seems that company has withdrawn maximum amount of money from short term deposit account, probably that's why the income from short term deposit account decreased. And if we compared this increased percentage with the last year's increased percentage (i.e. 43.89 percent) then it indicated a growth of 170 percent. This is not a good sign because it means that company has over spent which further indicated that company's efficiency was not good. Due to the increase in the amount of financial expense, the net profit before tax decreased by 26.39 percent from 2144.4 million (2009) to Rs. 1578.2 million (2010).But according to vertical analysis it showed that company has able to maintain its net profit as compared to 2009.

Vertical analysis

Items	2009		2010	
	Rs.	%	Rs.	%
Sales	36149.39	100	26248.8	100
Net profit	2144.4	6	1578.2	6

The amount of dividend was same as compared to 2009, which was Rs.494.8 million but it also decreased after 2008.So, overall analysis of operational activities has showed that company is in bad position; however as compared to 2009 and according to vertical analysis it seems that company has fought hard to maintain its position.

CASH FLOW DATA:

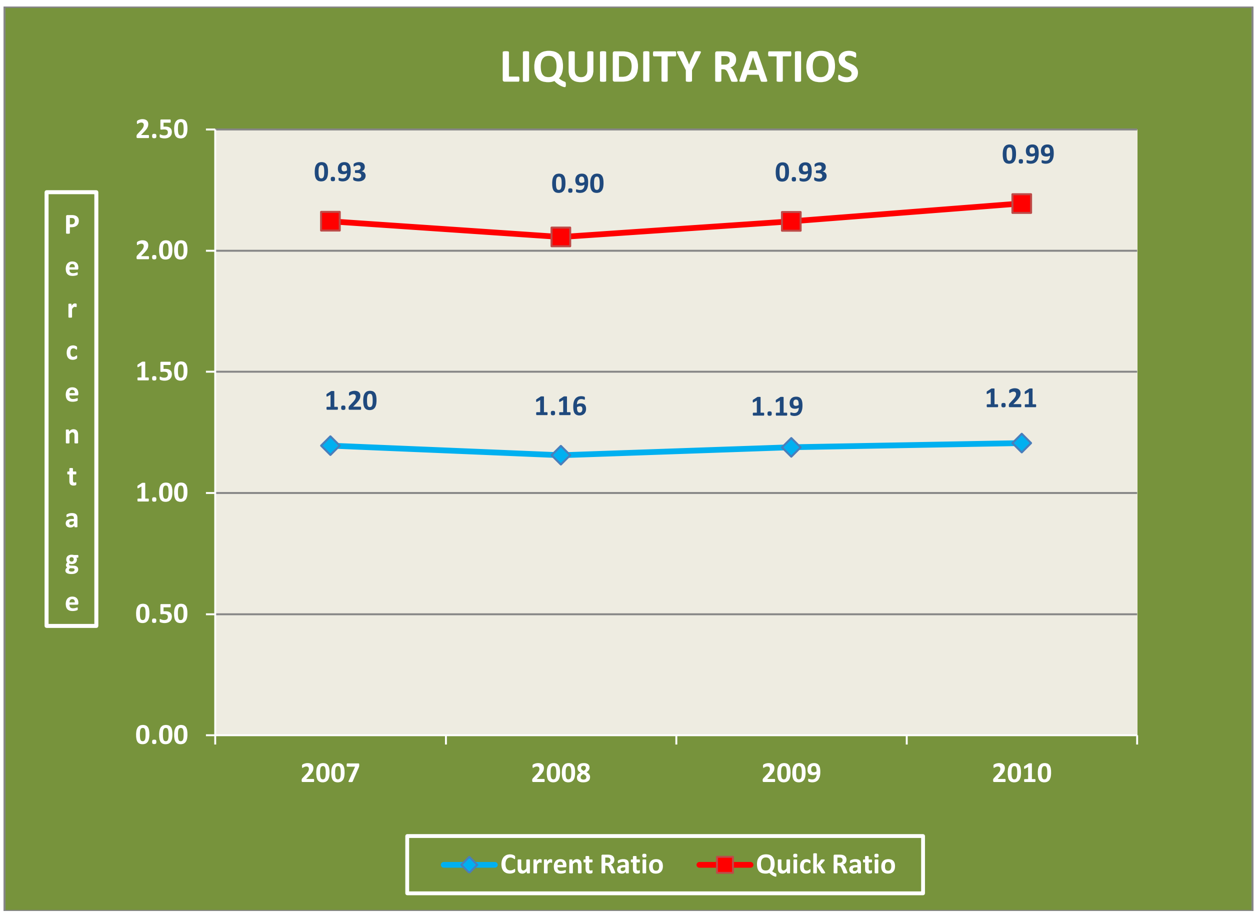
After analyzing the data of cash flows, it showed that the net cash flow increased by 5.12 percent from -2770.8 million to -2629.2 million during 2010, but its negativity showed that the cash flows positions are very poor. Net cash flows from operating activities were positive till 2008 and then in 2009 it changed unexpectedly and gets negative with big numbers. It changed from Rs.2727.4 million in 2008 to Rs.-1871 million in 2009. This change is due to the major decrease in cash flow from operating activities. Till 2008 it was positive but after 2008 it got negative because in 2009 and 2010 the receipts were less as compared to payments due to this cash flow statement showed negative value.

FINANCIAL RATIOS:

Liquidity Ratios:

The current and quick ratio is very much stabilizing during last 4 years; however in 2010, the current ratio and as well as quick ratio improved and increased up to 121 and 99 percent respectively. If we compared it from whole engineering sector then it seems that current ratio is not up to the sector but the most impressive thing is that, company's quick ratio is very good as compared to the whole engineering sector which means that company has an ability to pay its debt in short period of time very easily.

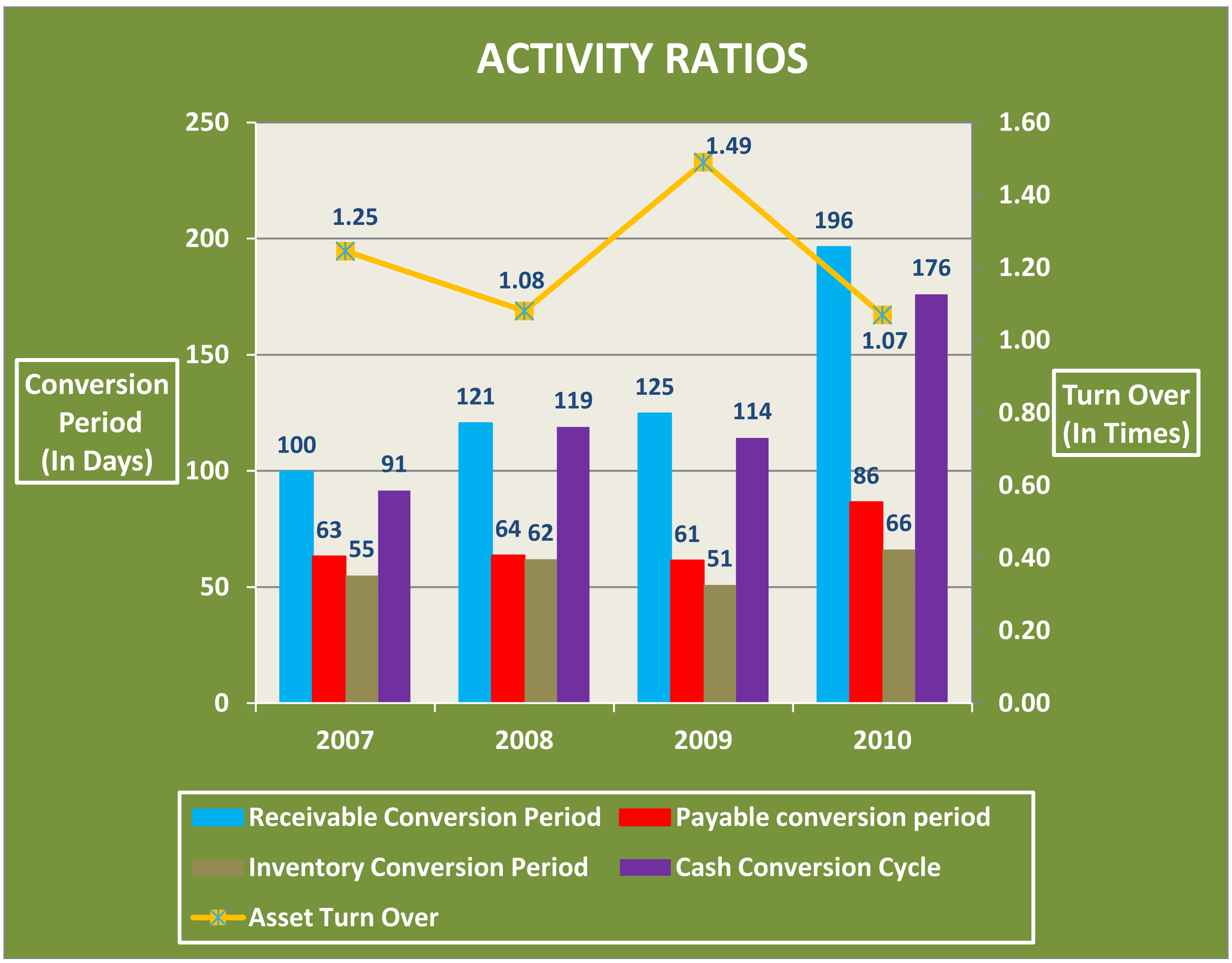
	Engineering Sector			Siemens Pakistan Ltd.		
	2008	2009	2010	2008	2009	2010
Current Ratio (%)	132	130	126	116	119	121
Quick Ratio (%)	84	85	87	90	93.3	99



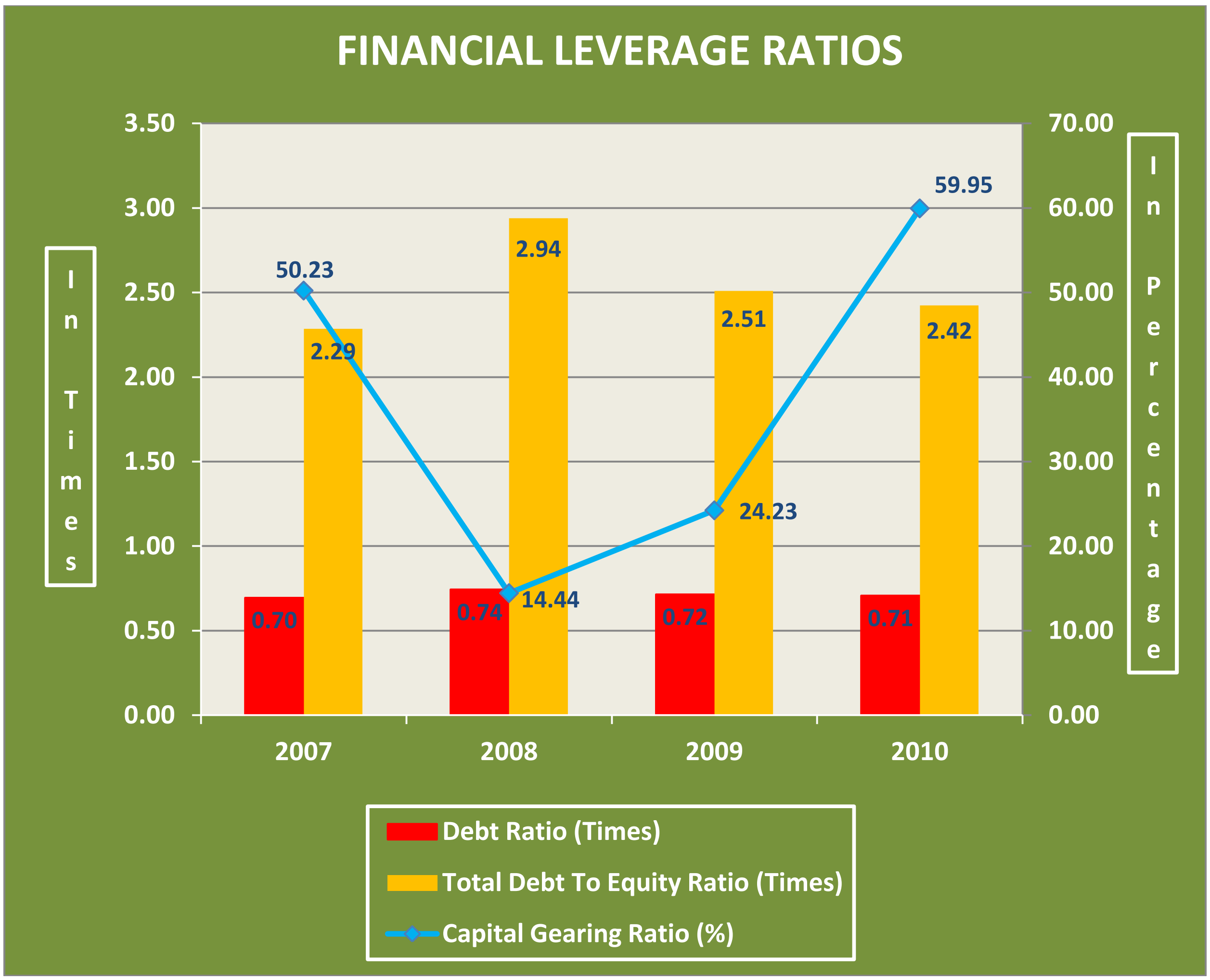
Activity Ratios:

Activity ratios measure the effectiveness of the firm's use of resources. So receivable conversion period of 2010 indicated a bad sign because it increased by 56.8 percent from 125 days (2009) to 196 days (2010) which means that the company was unable to collect cash from customers very quickly or with in a short period of time. After analyzing payable conversion period it indicated that it also increased by 41 percent from 61 days to 86 days during 2010. It is a good sign that payment period had increased, however as compared to increase in the days of accounts receivable, the days of account payable has not increased. Further if we analyzed inventory conversion period it seems that it also increased by 29 percent from 51 days to 66 days during 2010 which means that inventory took 66 days to sale out. Cash Conversion period has also increased by 54.38 percent from 114 days to 176 days which mean that company's efficiency has declined in recent years.

Asset turn over indicated that it increased by 14.8 percent from 1.24 time to 1.08 time during 2010 which means that company has utilize its assets well to generate revenue.



Financial leverage ratios:
Capital gearing ratio of this company is low as compared to the many other engineering companies which is a positive sign but as we compared to 2009 it seems that company’s capital gearing ratio has increased by 148 percent from 24.23 percent to 60 percent, it showed that the company borrowed more finance from outsource in 2010.
Debt ratio indicated that the company’s solvency position is average. It is decreasing form 2008 and in 2010 it decreased by just 1 percent from 0.72 times to 0.71 times (2009), while in 2009 it decreased by 4 percent over 2008, it seems that company has able to stabilize its debt over its assets.
Debt to equity ratio indicated that it is high because upper acceptable limit of debt to equity ratio is 2:1 but Siemens debt to equity ratio is 2.42:1 in 2010 which showed that Siemens’ Liabilities has increased in 2010 due to borrowing from outside. However it decreased in 2010 as compared 2009 by 3.6 percent from 2.51 times to 2.42 times.



Profitability Ratios:

Profitability is the net result of policies and decisions. The ratios examined thus far provide useful clues as to the effectiveness of a firm's operations, but the profitability ratios go on to show the combined effects of liquidity, asset management, and debt on operating results.

The profit margin ratio indicated that in 2010 the company has able to maintain its net profit as compared to 2009. It is just increased by 1 percent during 2010 but after analyzing four years it seems that company's profit margin ratio is decreasing due to the decrease in sales volume and increase in expense amount.

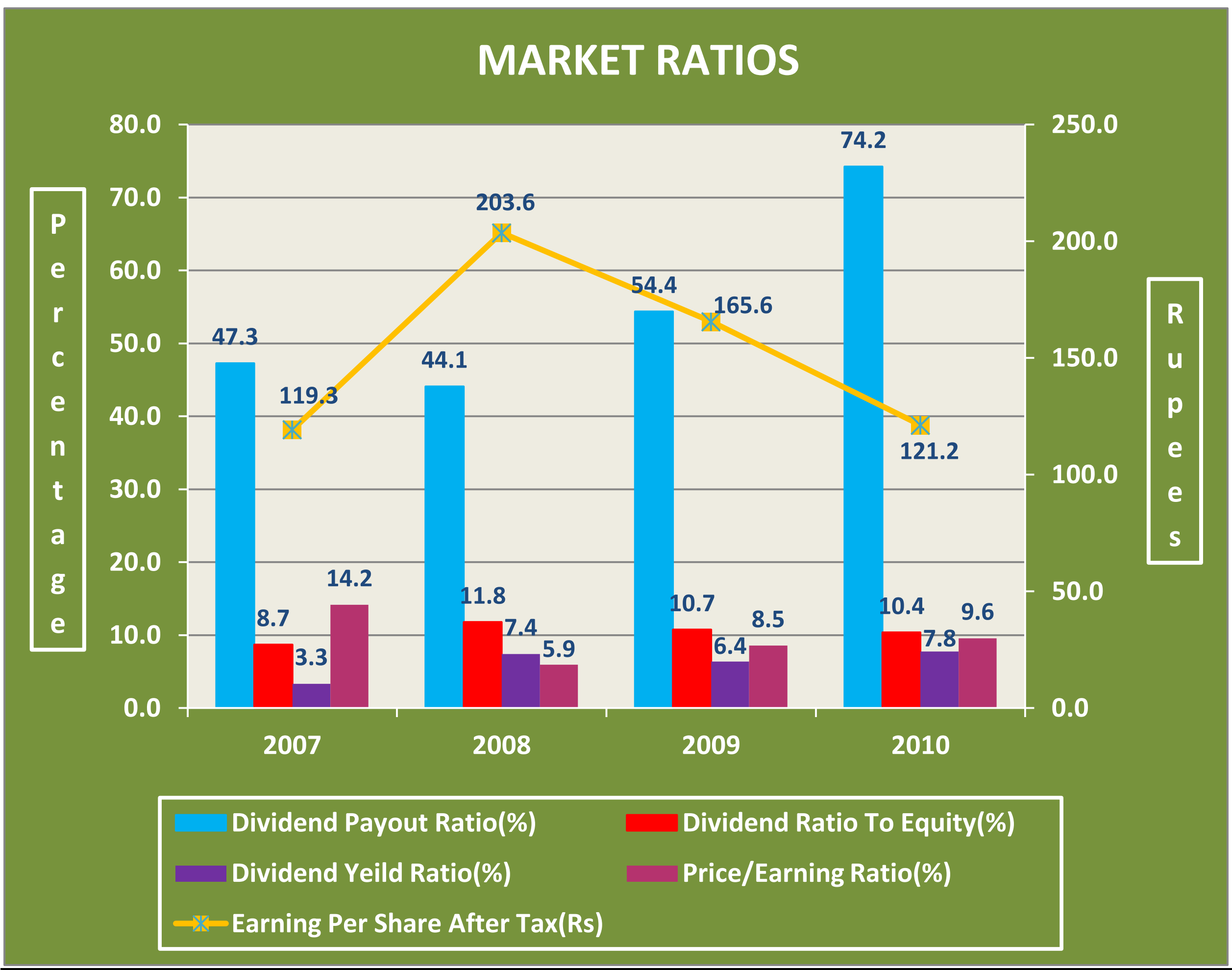
Return on assets decreased by 27.23 percent from 8.84 times in 2009 to 6.43 times in 2010. Further analyzed that return on assets is continuously decreasing annually. The major change in return on assets is due to the decrease in profit and purchase of new assets, so it indicated that the assets didn't utilize efficiently to make a handsome return. Further analyzed that return on equity also decreased by 29 percent from 31.03 times to 22.02 times during 2010 and it seems that it is also decreasing annually which is not a good sign. So, overall analysis of profitability ratio indicated that company profitability position is not too good.

Market Ratios:

The market ratios give an indication of what investors think of the company's past performance and future prospects.

Dividend payout ratio increased by 37 percent from 54.36 percent to 74.24 percent during 2010 which indicated that even profit decreased but company still manage to paid handsome dividend to their shareholders which indicated that the company cared about their shareholders very much. Dividend ratio to equity indicated a positive sign because company has maintained its dividend ratio to equity as compared to 2009. But after analyzing earning per share it indicated that due to decrease in profit company's earning per share decreased by 27 percent from Rs.165.55 to Rs.121.22 during 2010. Price/earning ratio shows that how much investors are willing to pay per Rs. of reported profits so after analyzing price/earning ratio it indicated that it increased by 12 percent from Rs.8.55 to Rs.9.57 during 2010. Further analyzed that dividend yield ratio also increased by 22 percent from 6.36 percent to 7.76 percent during 2010 which indicated that the company's stock is under priced and company has fallen on hard times.

Overall analysis indicated that the company's earning are low but still company has paid handsome dividend and tried their level best to maintain its market value by distributing handsome dividend.



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