Comparative Evaluation of Financial Performance of Pakistan Tobacco Company (PTC) and Philip Morris Pakistan Limited (PMPKL) through Ratio Analysis

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Abstract:

Financial ratio's play a significant role in analyzing firm's financial performance. These ratio's are usually used to summarize the information in a firm's financial statements, analyzing and evaluating its financial position. This study was based on secondary data collected from selected companies of Tobacco Industry in Pakistan for the period of 2008-2012. The main objective of the study was to compare financial performance of two leading companies, Pakistan Tobacco Company (PTC) and Philip Morris Pakistan Limited (PMPKL). Further, this study used various financial ratios like liquidity ratios, activity ratios, leverage ratios, profitability ratios and market value ratios. Moreover, the results of the study indicates that in term of liquidity and leverage ratios, PMPKL ranked first and PTC ranked second, whereas in terms of activity, profitability and market value, PTC ranked first and PMPKL second. Overall, PTC ranked first and secured 26 points, whereas PMPKL ranked second and secured 19 points. Finally, the results revealed that financial performance of PTC was better than in comparison to PMPKL.

Keywords: *Tobacco Industry, Ratios Analysis, Financial Performance*

Introduction:

In financial management, one of the planned and technical basis on which firm decisions are made quickly and secure is the financial statement analysis. Drake (2010) defined that financial statement analysis is the process of selection, evaluation and interpretation of financial data. Further, he stated that it also shows other pertinent information which help in investment and financial decision making. In addition, it is also the process of identifying financial strengths and weaknesses of the firm by properly establishing the relationship between balance sheet and income statement items.

The basic tool in financial statement analysis is financial ratio analysis. As we know that financial statements are generally lengthy, therefore finance and accounting scholars developed predefined formulas which are more efficient and strategic in evaluating the overall financial condition of a corporation or other organization. According to Manish & Shaban (2013) ratio analysis is an important method for financial analysis. It shows the relationship between two or more things. The values of financial ratios are usually selected from firm's financial statements. There are several ratios used to analyze the financial condition of a company or other business. Financial analysts use financial ratios to evaluate and compare the strengths and weaknesses in different organizations. Brigham & Houston (2009) studied that financial analysis is the comparison between two or more firm's performance in the same industry and evaluating tendency in the firm's financial position over time.

According to Manish & Shaban (2013) cross sectional analysis are used to compare ratios of one company with another company in the same industry at the same point. This method is more valuable to pick some competitors which have relevant operations and compare their ratios with the company's. It also aim to shows the comparative financial position and performance of the company.

1.2 Key Financial Ratios:

The result of financial ratio is obtained by dividing one financial data with other and is applied to indicate the relationship of different financial variables. Calculating ratios balance sheet and income statement are the most common and important sources of financial information. Woo & Baker (2005) studied that unseen and ignore data when examined individually would be showed by the financial ratios through the appearance of many data's as ratios. Financial ratio analysis includes the calculation and analysis of ratios that use data from one, two or more financial statements.

1.2.1 Liquidity Ratios:

Chordia et al (2005) noted that liquidity is the capability of a firm to sell assets at a sound price to meet its short term financial debts. Liquidity ratios verified that a particular firm has sufficient resources to meet its current liabilities, which are payable within a year.

Current Ratio;

Fraser & Ormiston (2004) studied that current ratio is the ability of a company to meet its debts requirements as they come payable. Current assets are used as the numerator, whereas current liabilities are used as the denominator of the ratio to signify the most urgent debts, requiring due within one year.

Quick Ratio;

According to Horngren, Harrison & Bamber (1999) quick or acid test ratio is the ability of a company to meet its current liabilities as they come due immediately. Quick ratio eliminates the liquidation of inventories from the numerator, measured the least liquid current assets. Quick ratio confirmed that the firm has sufficient quick assets to pay its short term debts.

1.2.2 Activity Ratios:

Activity or turnover ratio represents the firm's ability to obtain the highest income by using its resources correctly. Baruch (1974) said that calculating turnover ratios sales revenue remains as the numerator whereas assets, account receivables, inventory etc are used as the denominator.

Accounts Receivable Turnover;

According to Fraser & Ormiston (2004) the accounts receivable turnover ratio measures how many times, on average, accounts receivable are collected in cash during the year.

Accounts Payable Turnover;

According to Fraser & Ormiston (2004) the accounts payable turnover ratio measures how many times, on average, accounts payable are paid during the year.

Fixed Assets Turnover;

According to Fraser & Ormiston (2004) fixed assets turnover is extremely important for a capital intensive company and considers only the company's investment in fixed assets.

Inventory Turnover;

Sharma (2012) studied that inventory turnover ratio is employed to represent the number of times inventory is sold or used in the company during the financial era. All of the firm's prefer a beneficial rate of inventory turnover, which is neither too high nor too low.

Total Assets Turnover;

Total assets turnover shows that how many times the annual sales crosses the total assets (Sharma 2012). It measures the efficiency of managing all of a company's assets (Fraser & Ormiston 2004).

1.2.3 Leverage Ratios:

According to Sharma (2012) leverage ratios involves the debt obligations a company holds along with the shareholder's equity. It is used to show the firm's ability to meet its financial obligations.

Debt to Assets Ratio;

Brigham & Houston (2009) studied that the ratio of total debt to total assets measures the percentage of funds provided by creditors. Further, Fraser & Ormiston (2004) shows that it is the percentage of all assets that are financed with debt.

Debt to Equity;

Fraser & Ormiston (2004) noted that the debt to equity ratio measures the riskiness of the company's capital structure in terms of the relationship between the funds supplied by creditors and investors.

1.2.4 Profitability Ratios:

Profitability ratios indicate the overall efficiency and performance of firm. Some of the major profitability ratios are discussed as under.

Gross Profit Margin;

Gross Profit Margin shows the total increase between Cost of Goods Sold and sales revenue. It also reflects the efficiency with which the management produces each unit of product (Brealey & Myers 1984).

Net Profit Margin;

Net Profit Margin signifies the overall measure of a company's ability to turn each rupee sales into net profit. It also establishes relationship between sales and net profit. Further, it indicates management's efficiency in administering, manufacturing and selling the products (Brealey & Myers 1984).

Return on Assets;

According to Sharma (2012) return on assets ratio shows that how competently total assets has been utilized by the company. It also indicates the overall rate of return on total assets of the firm. To determine return on total assets net income is compared with total assets of the company.

Return on Equity;

Return on Equity ratio demonstrates that how efficiently firms utilize common stock holder's equity in company. It also indicates the amount of net income a common shareholder receives for a dollar of his/her equity (Sharma 2012).

Earning Power Ratio;

Earning power ratio indicates the raw earning power of the company's assets before the pressure of taxes and debt. It is calculated by dividing earnings before interest and taxes (EBIT) by total assets (Brigham & Houston 2009).

1.2.5 Market Value:

Earnings Per Share;

Earnings Per Share is considered one of the important measures of profitability of shareholders investment. EPS is obtained by dividing the net profit by total number of ordinary shares outstanding (Foster 1986).

1.3 Tobacco Industry in Pakistan:

Tobacco Industry has played a vital role in development of Pakistan economy. It is considered a dominant and revenue generator industry. The market is dominated by two major players Pakistan Tobacco Company (PTC) and Philip Morris Pakistan Limited (PMPKL – previously known Lakson Tobacco Company). Pakistan Tobacco Company (PTC) having an approximately 50% market shares and Philip Morris Pakistan Limited (PMPKL) having 32% market shares. While the remaining 18% market share consists of small home players (usually out of tax bracket sold in interiors) and therefore their prices are lower than the regulated segment.

1.3.1 Pakistan Tobacco Company (PTC);

Pakistan Tobacco Company (PTC) has affiliation with the multinational British American Tobacco (BAT). British American Tobacco (BAT) has been in business over 100 years, now with a presence in over 180 countries. In Pakistan, British American Tobacco (BAT) carries out its business under the name of Pakistan Tobacco Company (PTC).

Pakistan Tobacco Company was established in 1947 and considered first multinational company in Pakistan. PTC was incorporated and completed 65 years of its operations in Pakistan. It runs two states of art factories and employs more than 1700 peoples, while indirectly providing livelihoods to more than a million peoples, who are involved in various aspects of business. PTC is considered market leaders and contributes more than Rs. 30 billion in excise duties and taxes to Government of Pakistan (www.ptc.com.pk).

1.3.2 Philip Morris Pakistan Limited (PMPKL);

Philip Morris Pakistan Limited (PMPKL) is an affiliate of Philip Morris International (PMI). Formerly it was known as Lakson Tobacco Company, which started it business in 1969 as a public limited company. However, the name was changed in 2011 to Philip Morris Pakistan Limited (PMPKL) and acquired a majority shareholder in local business in 2007. Currently, PMPKL has a tobacco leaf threshing plant, three cigarette manufacturing factories and sale offices across the country and employs around 2500 people (www.philipmorrispakistan.com.pk).

2. Objectives of the Study:

The present study "Comparative evaluation of financial performance of Pakistan Tobacco Company (PTC) and Philip Morris Pakistan Limited (PMPKL) through ratio analysis" has been planned to accomplish the following objectives;

- To evaluate the financial performance of PTC and PMPKL through ratio analysis.
- To compare the financial performance of PTC and PMPKL through ratio analysis.

3. Research Methodology:

Based on research technique, this study used secondary data approach, because the important purpose of study is to compare the financial performance of PTC and PMPKL through ratio analysis. According to Zikmund (1997) secondary data is defined as data collected and recorded by someone else before the present requirements of researcher. Secondary data are usually past data, and do not need access to respondents or subjects because it is already assembled. The time period of study is five years from 2008 to 2012.

The data were obtained from the annual reports and financial statements of selected tobacco companies i.e. Pakistan Tobacco Company (www.ptc.com.pk) and Philips Morris Pakistan Ltd (www.philipmorrispakistan.com.pk).

4. Data Analysis:

4.1 Liquidity Ratio's:

Current Ratio;

Table No. 4.1.1

Current Ratio							
Particulars	**2008**	**2009**	**2010**	**2011**	**2012**	**Avg.Score**	**Ranking**
PTC	0.91	0.91	0.85	0.81	0.95	0.886	Second
PMPKL	1.95	1.98	1.99	1.72	1.07	1.742	First

(Source: Compiled from financial statements of PTC & PMPKL)

Interpretation: From table no. 4.1.1, it has been found that the average current ratio of PTC and PMPKL were 0.886 and 1.742 respectively. As a rule of thumb, the current ratio ideal is 2:1, which mean that a company is in good position. As average current ratio of five years, PTC had 0.886 in current assets for every dollar/rupees of current liabilities, whereas PMPKL had 1.742 in current assets for every dollar/rupees of liabilities. Further, it showed that PMPKL was better than PTC to meet its short term debt obligation from current assets. So, in term of current ratio it can be concluded that financial position of PMPKL was better than PTC. The PMPKL and PTC were given two points and one point, respectively.

Quick Ratio;

Table No. 4.1.2

Quick Ratio							
Particulars	**2008**	**2009**	**2010**	**2011**	**2012**	**Avg.Score**	**Ranking**
PTC	0.09	0.04	0.04	0.06	0.07	0.06	Second
PMPKL	0.17	0.15	0.16	0.2	0.12	0.16	First

(Source: Compiled from financial statements of PTC & PMPKL)

Interpretation: From table no. 4.1.2, it has been found that the average quick ratio of PTC and PMPKL were 0.06 and 0.16 respectively. The rule of thumb for quick ratio is that it should be at least 1:1, which mean that a company is able to meet their short term liabilities. As average quick ratio of five years, PTC had 0.06 in liquid assets for every dollar/rupees of current liabilities, whereas PMPKL had 0.16 in liquid assets for every dollar/rupees of current liabilities. This showed very lower ratio, because both the companies were relies too heavily on inventory to meet its obligations. So, in term of quick ratio it can be concluded that financial position of PMPKL was better than PTC. The PMPKL and PTC were given two points and one point, respectively.

4.2 Profitability Ratios:

Gross Profit Margin;

Table No. 4.2.1

Gross Profit Margin							
Particulars	**2008**	**2009**	**2010**	**2011**	**2012**	**Avg.Score**	**Ranking**
PTC	0.39	0.38	0.30	0.27	0.33	0.334	First
PMPKL	0.38	0.37	0.33	0.25	0.28	0.322	Second

(Source: Compiled from financial statements of PTC & PMPKL)

Interpretation: From table no. 4.2.1, it has been found that the average gross profit ratio of PTC and PMPKL were 0.334 and 0.332 respectively. As a rule of thumb, a higher gross profit is preferred, which mean that a company keeps more on each dollar/rupees of sales to meet its other costs and obligations. The study revealed that as average gross profit margin of five years, PTC had spent 66% of its sales on cost of goods sold, whereas PMPKL had spent 67% of its sales on cost of goods sold. So, in term of gross profit margin it can be concluded that financial position of PTC was better than PMPKL. The PTC and PMPKL were given two points and one point, respectively.

Net Profit Margin;

Table No. 4.2.2

Net Profit Margin							
Particulars	**2008**	**2009**	**2010**	**2011**	**2012**	**Avg.Score**	**Ranking**
PTC	0.13	0.14	0.04	0.02	0.07	0.08	First
PMPKL	0.1	0.07	0.04	-0.04	-0.04	0.026	Second

(Source: Compiled from financial statements of PTC & PMPKL)

Interpretation: From table no. 4.2.2, it has been revealed that the average net profit ratio of PTC and PMPKL were 0.08 and 0.026 respectively. As a rule of thumb, the common range of net profit margin is around 5%, however around 10% is considered more excellent. The study found that as average net profit margin of five years, PTC had net profit of 8% on its sales, whereas PMPKL had net profit of 3% on its sales. So, in term of net profit ratio it can be concluded that financial position of PTC was better than PMPKL. The PTC and PMPKL were given two points and one point, respectively.

Return on Assets;

Table No. 4.2.3

Return on Assets							
Particulars	**2008**	**2009**	**2010**	**2011**	**2012**	**Avg.Score**	**Ranking**
PTC	0.24	0.25	0.07	0.03	0.12	0.142	First
PMPKL	0.12	0.09	0.04	-0.04	-0.04	0.034	Second

(Source: Compiled from financial statements of PTC & PMPKL)

Interpretation: From table no. 4.2.3, it has been found that the average return on assets ratio of PTC and PMPKL were 0.142 and 0.034 respectively. As a rule of thumb, a higher return on assets is preferred this indicates that a company has efficient management. The study revealed that as average return on assets of five years, PTC had 14% of return on assets, whereas PMPKL had 3% of return on assets. So, in term of return on assets ratio it can be concluded that financial position of PTC was better than PMPKL. The PTC and PMPKL were given two points and one point, respectively.

Return on Equity;

Table No. 4.2.4

Return on Equity							
Particulars	**2008**	**2009**	**2010**	**2011**	**2012**	**Avg.Score**	**Ranking**
PTC	0.7	0.71	0.26	0.11	0.42	0.44	First
PMPKL	0.18	0.14	0.08	-0.07	-0.1	0.046	Second

(Source: Compiled from financial statements of PTC & PMPKL)

Interpretation: From table no. 4.2.4, it has been found that the average return on equity ratio of PTC and PMPKL were 0.44 and 0.046 respectively. As a rule of thumb, a higher return on equity is preferred, which indicates that management performance is better. Usually, return on equity measures will be higher than return on assets due to leverage. This study found that as average return on equity of five years, PTC had 44% of return on equity, whereas PMPKL had 5% of return on equity. This indicates that PTC had generated 0.44 of profit for every 1 dollar/rupees of shareholders equity, whereas PMPKL had generated 0.05 of profit for every 1 dollar/rupees of shareholders equity. So, in term of return on equity ratio it can be concluded that financial position of PTC was better than PMPKL. The PTC and PMPKL were given two points and one point, respectively.

Earning Power Ratio;

Table No. 4.2.5

Earning Power Ratio							
Particulars	**2008**	**2009**	**2010**	**2011**	**2012**	**Avg.Score**	**Ranking**
PTC	0.37	0.38	0.11	0.04	0.19	0.218	First
PMPKL	0.18	0.14	0.07	-0.04	-0.05	0.06	Second

(Source: Compiled from financial statements of PTC & PMPKL)

Interpretation: From table no. 4.2.5, it has been found that the average earning power ratio of PTC and PMPKL were 0.218 and 0.06 respectively. As a rule of thumb, a higher earning power ratio is preferred, which indicates a company ability to generate profit. This study found that as average earning power ratio of five years, PTC had earning power of 22%, whereas PMPKL had earning power of 6%. So, in term of earning power ratio it can be concluded that PTC was performing better than PMPKL. The PTC and PMPKL were given two points and one point, respectively.

4.3 Leverage Ratios:

Debt to Asset;

Table No. 4.3.1

Debt to Asset							
Particulars	**2008**	**2009**	**2010**	**2011**	**2012**	**Avg.Score**	**Ranking**
PTC	0.65	0.65	0.71	0.75	0.7	0.692	Second
PMPKL	0.37	0.36	0.44	0.46	0.57	0.44	First

(Source: Compiled from financial statements of PTC & PMPKL)

Interpretation: From table no.4.3.1, it has been found that the average debt to asset ratio of PTC and PMPKL were 0.692 and 0.44 respectively. As a rule of thumb, a lower debt ratio is preferred since higher debt ratio means that higher portion of company assets are financed through debts, which indicates higher risk in operations. If a company debt ratio is less than 0.5, most of its assets are financed through equity, whereas if it is greater than 0.5, most of its assets are financed through debts. This study revealed that as average debt to assets ratio of five years, PTC had financed 69% of its assets through debts whereas PMPKL had financed 44% of its assets through debts. So, in term of debt to asset ratio it can be concluded that PMPKL was performing better than PTC. The PMPKL and PTC were given two points and one point, respectively.

Debt to Equity;

Table No. 4.3.2

Debt to Equity							
Particulars	**2008**	**2009**	**2010**	**2011**	**2012**	**Avg.Score**	**Ranking**
PTC	1.88	1.87	2.44	2.99	2.38	2.312	Second
PMPKL	0.57	0.55	0.79	0.87	1.31	0.818	First

(Source: Compiled from financial statements of PTC & PMPKL)

Interpretation: From table no. 4.3.2, it has been found that the average debt to equity ratio of PTC and PMPKL were 2.312 and 0.818 respectively. As a rule of thumb, a debt to equity ratio should be 1:1, which means that a company is considered safer. In general, debt should be between 50 to 80 percent of equity. So, in term of debt to equity ratio it can be concluded that PMPKL was performing better than PTC. The PMPKL and PTC were given two points and one point, respectively.

4.4 Activity Ratios:

Accounts Receivable Turnover;

Table No. 4.4.1

Accounts Receivable Turnover							
Particulars	**2008**	**2009**	**2010**	**2011**	**2012**	**Avg.Score**	**Ranking**
PTC	75.58	241.19	219.56	116.23	89.62	148.436	First
PMPKL	189.07	91.44	52.32	38.51	54.26	85.12	Second

(Source: Compiled from financial statements of PTC & PMPKL)

Interpretation: From table no. 4.4.1, it has been found that the average accounts receivable turnover ratio of PTC and PMPKL were 148.436 and 85.12 respectively. As a rule of thumb, a high accounts receivable turnover ratio is preferred, which indicates that firm's management is more effective. It also evaluates the effectiveness of the company in managing its accounts receivable. This study found that as average accounts receivable turnover of five years, PTC had 148 times turned over its receivables, whereas PMPKL had 85 times turned over its receivables during the year. So, in term of accounts receivable turnover ratio it can be concluded that PTC was performing better than PMPKL. The PTC and PMPKL were given two points and one point, respectively.

Accounts Payable Turnover;

Table No. 4.4.2

Accounts Payable Turnover							
Particulars	**2008**	**2009**	**2010**	**2011**	**2012**	**Avg.Score**	**Ranking**
PTC	2.68	2.67	2.76	2.36	2.49	2.592	First
PMPKL	5.76	6.97	7.54	8.47	4.66	6.68	Second

(Source: Compiled from financial statements of PTC & PMPKL)

Interpretation: From table no. 4.4.2, it has been found that the average accounts payable turnover ratio of PTC and PMPKL were 2.592 and 6.68 respectively. As a rule of thumb, the lower accounts payable turnover is preferred, which indicates that the company is taking longer to repay its payables. It also evaluates the effectiveness of the company in managing its payables. This study revealed that as average accounts payable turnover of five years, PTC had 3 times turned over its accounts payable, whereas PMPKL had 7 times turned over its accounts payable during the year. So, in term of accounts payable turnover ratio it can be concluded that PTC was performing better than PTC. The PTC and PMPKL were given two points and one point, respectively.

Inventory Turnover;

Table No. 4.4.3

Inventory Turnover							
Particulars	**2008**	**2009**	**2010**	**2011**	**2012**	**Avg.Score**	**Ranking**
PTC	2.72	2.25	2.38	2.51	2.3	2.432	First
PMPKL	1.25	1.36	1.11	1.33	1.32	1.274	Second

(Source: Compiled from financial statements of PTC & PMPKL)

Interpretation: From table no. 4.4.3, it has been found that the average inventory turnover ratio of PTC and PMPKL were 2.432 and 1.274 respectively. As a rule of thumb, a high value of inventory turnover is preferred, which indicates the enhancement in performance, whereas a low value of inventory turnover indicates inefficiency in controlling inventory level. This study found that as average inventory turnover of five years, PTC had nearly 3 times turned over its inventory, whereas PMPKL had 1 time turned over its inventory during the year. So, in term of inventory turnover ratio it can be concluded that PTC was performing better than PMPKL. The PTC and PMPKL were given two points and one point, respectively.

Fixed Assets Turnover;

Table No. 4.4.4

Fixed Assets Turnover							
Particulars	**2008**	**2009**	**2010**	**2011**	**2012**	**Avg.Score**	**Ranking**
PTC	3.33	3.62	3.58	3.75	4.52	3.76	First
PMPKL	3.36	3.45	3.41	3.15	2.49	3.172	Second

(Source: Compiled from financial statements of PTC & PMPKL)

Interpretation: From table no. 4.4.4, it has been found that the average fixed assets turnover ratio of PTC and PMPKL were 3.76 and 3.172 respectively. As a rule of thumb, the higher fixed assets turnover is preferred, which shows that the company has less money tied up in fixed assets for each unit of sales, whereas the lower fixed assets turnover indicates that the company is over investing in fixed assets. This study found that as average fixed assets turnover of five years, PTC had 4 times turned over its fixed assets, whereas PMPKL had 3 times turned over its fixed assets. So, in term of fixed assets turnover ratio it can be concluded that PTC was performing better than PMPKL. The PTC and PMPKL were given two points and one point, respectively.

Total Assets Turnover;

Table No. 4.4.5

Total Assets Turnover							
Particulars	**2008**	**2009**	**2010**	**2011**	**2012**	**Avg.Score**	**Ranking**
PTC	1.81	1.77	1.69	1.72	1.86	1.77	First
PMPKL	1.2	1.27	1.04	1.03	0.99	1.106	Second

(Source: Compiled from financial statements of PTC & PMPKL)

Interpretation: From table no. 4.4.5, it has been found that the average total assets turnover ratio of PTC and PMPKL were 1.77 and 1.106 respectively. As a rule of thumb, the higher total assets turnover is preferred, which indicates more effective. It also shows that how efficiently a company uses its total assets to generate revenue. This study revealed that as average total assets turnover of five years, PTC had 2 times turned over its total assets, whereas PMPKL had 1 time turned over its total assets during the year. So, in term of total assets turnover ratio it can be concluded that PTC was performing better than PMPKL. The PTC and PMPKL were given two points and one point, respectively.

4.5 Market Value Ratio:

Earnings per Share;

Table No. 4.5.1

Earnings Per Share							
Particulars	**2008**	**2009**	**2010**	**2011**	**2012**	**Avg.Score**	**Ranking**
PTC	9.91	11.83	3.62	1.42	6.77	6.71	First
PMPKL	17.95	15.56	9.30	-7.39	-9.46	5.192	Second

(Source: Compiled from financial statements of PTC & PMPKL)

Interpretation: From table no. 4.5.1, it has been found that the average earning per share of PTC and PMPKL were 6.71 and 5.192 respectively. This study found that as average earning per share, PTC had earned 6.71 dollars/rupees for every share of common stock, whereas PMPKL had earned 5.2 dollars/rupees for every share of common stock during the year. So, in term of earning per share it can be concluded that financial position of PTC was better than PMPKL. The PTC and PMPKL were given two points and one point, respectively.

5. Recommendation:

The results of the study indicate that financial performance of PTC was better than PMPKL. Investing in PTC for long time could be good and investing in PMPKL require improvement, as it has already encouraged at upper level in short period of time and thus investment for long period will be better. Although to acquire significant and well judged analysis both companies have to use correct data and also have to believe other aspects which influence performance including non financial performance events. Both companies have to focus on important matters like improving the return on capital employed by reducing assets rather than revenue. They also need absolute awareness of ratios benefit, limitations, policy and standards of different business along with capability to build comparative analysis in order to employ them efficiently to examine unpleasant trend and get corrective measures accordingly. In order to acquire correct ratio it must be evaluated against the average and past performance of a company, could not be measured as a standard when modify due to situation are possible.

6. Conclusion:

The main finding of this study was to compare the financial performance of PTC and PMPKL through ratio analysis for time period of 2008-2012. Financial performance is a major standard to measure a company operational and financial efficiency. Although analyzing financial performance of PTC and PMPKL, this study was included analysis of liquidity ratios, profitability ratios, activity ratios, leverage ratios and market ratios. Ketz, Doogar & Jensen (1990) argued that financial ratio analysis is mostly used; (a) to compare a present ratio of company with past and estimated future ratios for the similar company, and (b) to compare one company with those of comparable companies or with industry standards at some point in time. Moreover, the conclusion of the study was drawn with the help of the following table;

Table No. 6.1 Comparison on the basis of five years Average Score, Ranking and Points;

Category of Ratio	S/ No	Name of Ratio	PTC Avg.	PMPKL Avg.	PTC Rank	PTC Points	PMPKL Rank	PMPKL Points

			Score	Score				
Liquidity Ratios	1	Current Ratio	0.886	1.742	Second	1	First	2
	2	Quick Ratio	0.06	0.16	Second	1	First	2
Profitability Ratios	3	Gross Profit Margin	0.334	0.322	First	2	Second	1
	4	Net Profit Margin	0.08	0.026	First	2	Second	1
	5	Return on Assets	0.142	0.034	First	2	Second	1
	6	Return on Equity	0.44	0.046	First	2	Second	1
	7	Earning Power Ratio	0.218	0.06	First	2	Second	1
Leverage Ratios	8	Debt to Assets	0.692	0.44	Second	1	First	2
	9	Debt to Equity	2.312	0.818	Second	1	First	2
Activity Ratios	10	Accounts Receivable Turnover	148.436	85.12	First	2	Second	1
	11	Accounts Payable Turnover	2.592	6.68	First	2	Second	1
	23	Inventory Turnover	2.432	1.274	First	2	Second	1
	13	Fixed Assets Turnover	3.76	3.172	First	2	Second	1
	14	Total Assets Turnover	1.77	1.106	First	2	Second	1
Market Value Ratio	15	Earning Per Share	6.71	5.192	First	2	Second	1
Total						26		19

Interpretation: From table 6.1, it has been found that total points of PTC and PMPKL were 26 and 19 points, respectively. In order to calculate point in study, 2 points has been given to first rank and 1 point to second rank. Further, it has been revealed that PTC have secured 26 points with first rank in all the concerned ratio analysis except liquidity and leverage ratios, whereas PMPKL have secured 19 points as it has second rank in the respective analysis. Moreover, 15 ratios were used and analyzed through different tables, which indicated that in 11 ratios PTC was performing better while in remaining 4 ratios PMPKL was performing better. Finally, it can be concluded that PTC was strategically in better position and was satisfactory, in most of the analysis in comparison to PMPKL.

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Annex 1: Formula's used to Calculate Financial Ratio's

Category of Ratios	Name of Ratios	Formula's
Liquidity Ratios	Current Ratio	Current Assets / Current Liabilities
	Quick Ratio	Current Assets – Inventory / Current Liability
Profitability Ratios	Gross Profit Margin	Sales – Cost of Goods Sold / Sales
	Net Profit Margin	Net Income / Sales
	Return on Assets	Net Income / Total Assets
	Return on Equity	Net Income / Shareholder's Equity
	Earning Power Ratio	Earning before Interest and Taxes (EBIT) / Total Assets
Leverage Ratios	Debt to Assets	Total Liabilities / Total Assets
	Debt to Equity	Total Liabilities / Total Shareholder's Equity
Activity Ratios	Accounts Receivable Turnover	Sales / Average Accounts Receivable
	Accounts Payable Turnover	Cost of Sales / Average Accounts Payable

	Inventory Turnover	Cost of Goods Sold / Average Inventory
	Fixed Assets Turnover	Sales / Average Fixed Assets
	Total Assets Turnover	Sales / Average Total Assets
Market Value Ratio	Earning Per Share	Net Income / Number of Outstanding Shares