Consumer Knitex Ltd.'s Performance Evaluation Using aggregate ROE model

Course Name: Internship

Course Code: INT 4399

Submitted to:

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Date of Submission:

11Feb, 2018

UNITED INTERNATIONAL UNIVERSITY

Declaration

I, Asma Chowdhury Luna, the student of Bachelor of Business Administration major in Finance. I would like to solemnly declare here that the report on Financial has been authentically prepared by me. While preparing this report, I didn't breach any copyright act intentionally.

I am further declaring that, I did not submit this report anywhere for awarding any degree, diploma or certificate.

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Program: BBA

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Letter of Transmittal

11 FEB 2017

Dr. Mohammad A. Ashraf

Associate Professor

School of Business and Economics

United International University

Dhanmondi, Dhaka- 1209

Subject: Request to accept the report on "Consumer Knitex Ltd.'s Performance Evaluation using aggregate ROE model".

Dear Sir,

I am very pleased to submit the report on Performance Evaluation of Consumer Knitex Limited. I am assigned to prepare and submit this report as the fulfillment of the course entitled "Internship". I have tried my level best to prepare this plan perfectly. Nevertheless, this paper has been suffered by time and cost limitation.

I will be obliged, if you kindly accept this report.

Sincerely yours,

Acknowledgement

A report that requires a lot of information from various corners is not the works of its authors or preparers only. To prepare a report by collecting the data of many kinds, one is to depend upon many people and many others information.

First of all, I would like to thank Almighty Allah whose gracefulness let me complete this report. Besides a comprehensive work like this must owe credit to many people. I thank those kind ones whose help & kind support enable me to complete this report.

I have worked really hard for this report. Specially, I am thankful to my honorable faculty **Dr. Mohammad A. Ashraf** who helped me in every step of starting and completing my report properly.

I also pay my indebtedness to those websites that helped me by providing a lot of information. Without these help & support I could not be able to complete this report successful.

Executive Summary

This project provides an overall performance evaluation of Consumer Knitex Ltd, along with an in depth analysis and evaluation of their organizational activities.

The introduction includes company overview as well as general knowledge about the organizational process of the Consumer Knitex Ltd. I divide the report in two parts. First and main part includes information about their overall performance by using the aggregate ROE model which helps to know that the company is in risky position or safe position. I divide the all components of ROE model of the bank and analyses in this report. The second part of this report provides the risk management of Consumer Knitex Ltd. There I analyze reprising gap model, market risk, risk adjusted return on capital ratio, liquidity risk ratios, credit risk ratios and operational risk etc. At the end I discuss the overall position of the Consumer Knitex Ltd.

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Chapter-1
Introduction

Origin of the Report

The report entitled "Consumer Knitex Ltd.'s Performance Evaluation using aggregate RO model" has been prepared as a fulfillment of BBA program authorized by the Dr. Mohammad A Ashraf, Associate Professor, School Of Business And Economics, and United Internation University.

The BBA project program is a mandatory requirement for the students who are graduating fro the BBA programmed of United International University, Department of Business Administratior

In this project program, I was attached to a host organization named "Consumer Knitex Ltd" f 12 weeks. During this period I learned how the host organization works with the help of tl internal supervisor. As a result I have decided to make this report.

Objective of the Report

The objective of the report is to familiarize ourselves with the real market situation, as an analysis of financial statement of Multinational company. The main objective of this report is to have an assessment on how the analyses were made by using financial statements. In addition, the study seeks to achieve the following objectives:

- To review the present position of Consumer Knitex Ltd.
- Understanding the environment, functions and management of the organization.
- To apply theoretical knowledge in order to formulate a problem.
- To present an overview of Consumer Knitex Ltd.
- To assess the quality of financial statements.
- To analyze the ratio and risk.
- To forecast the future financial statements.
- To determine the value of the firm.

Scope of the Report

The analysis of the report is based on conceptual framework of performance analysis of Consumer Knitex Ltd. In a word, this report will present a short scenario on overall performance of a multinational company. This report will definitely extend the knowledge of the business students to be familiar with the performance analysis and will teach to apply theoretical knowledge in the practical area.

This report will help me to out some basic concept of finance like:

- This analysis helps me to find out the broad picture of financial statement.
- Accounting principle like how balance sheet is measure.
- Difference between market value added and earning.
- Identified the terms in balance sheet that is measured at fair value.

Methodology of the Study

To prepare this report, standard methods of report writing have been used. For writing this report different types of data were needed to complete, tabulate and analyze. And also I had to research different condition of related business. Using both primary and secondary sources, I collected the required data. For collecting data from primary sources, I went to Consumer Knitex Ltd. for collecting secondary data from sources internet, existing business document of related business, articles, newspapers and other materials were used. After completion of the data, these were sorted into different categories.

Here is given the details source of information that made this report successful.

The data sources are:

- Five years annual reports.
- Quarterly financial statements
- Half yearly financial statement
- Manuals and brochures of Consumer Knitex Ltd.

Theory and Concept

I have mentioned some important concept and theory that will help me to find out Consumer Knitex Ltd. Financial performance. We can easily understand what will be their future growth by using ratios analysis, forecasting technique. Ratio analysis is very useful tool of management accounting. With this, we can analyze business's financial position. We also check company's short term and long term solvency with ratio analysis.

Here I have given Duo point analysis, this analysis tell us that ROE is effective by three things-

- Operating efficiency which is measured by profit margin
- Asset use efficiency which is measured by total asset turnover
- Financial leverage which is measured by the equity multiplier.

These basic concept and theory of finance are given in this report; you can see elaborate explanation later.

Limitations of the study

Every study has some limitation. I am working with performance evaluation of Consumer Knitex Ltd. So my analysis also has some limitation. All the ratios do not give the appropriate measurement for forecasting or understanding the financial condition of Consumer Knitex Ltd. Some limitation of this study is given below:

- Financial accounting information is affected by estimates and assumptions. Accounting standards allow different accounting policies, which impairs comparability and hence ratio analysis is less useful in such situation.
- Ratio analysis explains relationships between past information while users are more concerned about current and future information.
- Ratio analysis just gives numbers, not causation factors. Ratios are meaningless without comparison against trend data or industry data. Ratios are also meaningless unless take the limitations listed in this article into account.
- Different divisions may need comparison to different industry averages.
- Ignores the qualitative statements-since the financial statements are concerned to the monetary matters only, the qualitative elements like quality management, quality of labor, public relations are ignored while carrying out the analysis of financial statement only.

Chapter-2

Company Profile and Activities

Organization Overview

A textile is a flexible material comprised of a network of natural or artificial fibres often referred to as thread or yarn. Textiles are formed by weaving, knitting, crocheting knotting or pressing fibers together. The textile industry is a term used for industries primarily concerned with the design or manufacture of clothing as well as the distribution and use of textiles. The textile industry grew out of the industrial revolution in the 19^{th} century as mass production of clothing becomes a mainstream industry.

Compagnie Mauricienne de Textile Ltee(CMT), a global jersey-wear industry leader, is headquartered in Mauritius with marketing offices in UK, France. CMT has the largest vertically-integrated manufacturing plants and is known for its marked investment in world-class facilities and state-of-the-art operations.

At the heart of the company, an almost tangible passion vibrates and translates into excitement and drive. It is a commitment to quality and fervour for being the best.

All the CMT directors have been with the company from its humble beginnings in 1986, relentlessly growing and developing the company ever since. Standing on the shoulders of giants, they are today the visionaries making progress for the company and their people.

It is specialized in the design and production of fast-fashion jersey-wear products for the finest clothing brands and fast-fashion retailers. With a turnover of US $200 million pa and employing around 10000 people, CMT is among the largest companies in Mauritius.

Mission Statement

From where we come… to where we're going.

We strive to be the number one world-class manufacturer of top quality garments and jersey wear, by investing in technology promoting training and development for our people.

By becoming a hub for learning, we will contribute to our country's social and economic development.

We are the Dream Team!

Company History

The company started with simple and humble ideals back in 1986 but lived to the vision of becoming the world's leader in the jersey wear industry.

- 1986 – Founded by Louis Lai Fat Fur and Francois Woo Shing Hai
    - 100% Mauritian
    - 30 employees
    - Involved mainly in cut-make-trim operations
    - 1 sewing factory

- 1990-96 – Capital investment and vertical integration
    - CAD/CAM Technology into pattern making, cutting and garment manufacture
    - Expansion into knitting and dyeing operations
    - Information Technology and development of ERP system
    - 2 fabric mills, 3 sewing factories and admin building

- 1997-2002 – Consolidation and widening of services
- Against the backdrop of its mission statement, drafted two decades ago, CMT has indeed come a long way to substantially achieve what it set out to accomplish. From its humble

beginnings in 1986, CMT has today grown to the largest jerseywear manufacturer in Mauritius and the Sub-Saharan region.

- Opening of a hi-tech dyeing plant, making it the largest in sub-Saharan Africa
- Starting product design and development services
- Opening of new sewing plants
- Expansion of embroidery and printing facilities
- 2 fabric mills, 5 sewing factories and admin building

- 2003-06 – Expansion of operations, upgrading services and global outreach
    - Creativity and product design center
    - Opening of world-class spinning mills
    - Opening of sewing plant, largest in Mauritius
    - Consolidation of knitting and dyeing
    - Vertical integration into trims and accessories manufacture
    - Investment into value-added processes
    - 2 fabric mills, 6 sewing factories and admin building
- 2007-08 – BHAG – A big hairy audacious goal set to propel CMT among the world's top ten jersey wear manufacturers by 2008
    - High speed growth

Against the backdrop of its mission statement, drafted two decades ago, CMT has indeed come a long way to substantially achieve what it set out to accomplish. From its humble beginnings in 1986, CMT has grown to be the largest jersey wear manufacturer in Mauritius and the Sub-Saharan region.

CMT Operations and Design

The company offers a full-package service to its customers, ranging from design to landed delivery in distribution centers in Europe and the US. Detailed operations include:

- Product design and development
- Yarn spinning and dyeing
- Fabric knitting, dyeing and finishing
- Cutting and sewing
- Printing
- Embroidery
- Garment wash and dyeing
- Landed delivery into distribution centers

Control over the full supply chain makes CMT a reliable total service provider of a vast array of value-added jersey garments designed to meet the unique and ever-changing needs of its customers.

Services

It begins with raw cotton of the finest quality. From the first stage of spinning; through the knitting, dyeing, finishing, cutting, sewing and through to the final step of careful embellishment; every phase in our vertically integrated process is carefully detailed and precision crafted, which serves to accentuate our highly impressive turnaround time.

Textile Fabric knitting, dyeing and finishing:

Matchless dexterity is given in the development of our fabrics

- Ranging from very light to heavy.
- From single jerseys, pique, ribs, interlock, pointelle, fleece to structured fabrics with engineered stripes and lycra-plaited knitting structures.

- Specially finished in processes like raising, sueding (peach finish), shearing, all-over printing and unlevelled dyeing effect.
- With compositions in cotton, viscose, polyester, polyamide and other blends.

Garment manufacture and embellishments:

As a one-stop shop in jersey wear, CMT offers a full range of cut and sewn garments for ladies, men and children. Products range from basic t/shirts and polo/ rugby shirts to more intricately sewn fancy garments with embellishment

- Up to 15 colours embroidery, with cut out appliqué, adorned with beads and sequins.
- Wide range of water base, plastisol, metallic, discharge and transfer prints.
- Cut and sewn under the expert advice of our designers giving the drapes and special stitches added value on the fashion item.
- Exacting and matchless quality is ensured by garment technologists to achieve near-to-perfection fitting and garment presentation.

Order details:

- Duty-free and quota-free for European and US markets
- Minimum order: 5,000 pcs/ style; 1,000 pcs/colour
- Trial order: 300 pcs/ colour
- Lead time: Initial orders ~ 4-6 weeks; Repeat orders ~ 1-3 weeks; Trial orders ~ 4 weeks

CMT Bangladesh

CMT Bangladesh has started its journey with CMI Limited in 2010 as a multinational company. CMI limited basically is an investing company for CMT Bangladesh. CMI acquired Dignity Textile Mills Limited (DTML) in January 2011, after that in October 2011 Consumer Knitex Limited (CKL) has also been acquired by CMI. As the sign of growth, CMT has expanded its business and a new factory is setting up, CKL unit 2 (TRISHAL) in July 2016.

The Head Office, Dhaka:

The head Office consists of 5 Departments, finance, Accounts & Audit, Commercial, General Purchase, Accessories Purchase and HR-Admin

- Finance, Accounts & Audit Department deals with all kinds of payments associated with CMT BD and this department also works for maintaining integrity for all other departments.
- Commercial Department handles all kind of import-export activity for CMT BD.
- General Purchase works for buying all the accessories items needed in factory's items/equipments needed for everyday operations and production.
- Accessories Purchase works for buying all the accessories items needed in factories for manufacturing.
- HR-Admin is responsible for providing administrative aid in information management systems, human resources, payroll, acquisition and communication.

Factory Know about:

We currently have 4 factories and all are in production. We have about 5000 active workers and staffs. The 4 factory's entire main product is T-Shirt, Polo-Shirt, Jersey-Wear, Women and Kids Wear. All of our products are mainly exported to United Kingdom, France, Hong-Kong, Singapore, USA, Spain and China.

Below is the basic info about the factories:

- Dignity Textile Mills Limited also known as DTML located in Betjuri, Boiragirchala, Shreepur, Gazipur. DTML has started its operation in January 2011. Now the factory is providing employment for about 1000 workers and staffs.(ware house: Ansar road DTML)

- Consumer Knitex Limited also known as ckl located in Dhamsur, Valuka, Mymensingh. CKL has started its operation in October 2011. Now the factory is providing employment for about 2000 workers and staffs.
- TRISHAL (CKL 2) is a new set up and the largest factory for CMT BD located in Bagan, Trishal, Mymensingh. This factory is under construction and current employment is around 2400, but the accommodation targeted for 5000 plus workers.

Consumer Knitex Ltd. Is capable of producing all types of garments as the company has well experience and quality conscience personnel, they are meeting the global quality standards required by the overseas buyers. The main advantage of the company is their infrastructure facility.

The production process of garments of this company consists of 3 major departments. They are:

- Cutting
- Stitching
- Checking and packing

Corporate Social Responsibility

CMT is committed to make its products under socially and ethically sound conditions.

Our CSR policy sets the framework and guidelines for CMT’s pledge to humanely treating its employees, providing them with adequate compensation and protecting their rights. A safe and healthy workplace together with the welfare of the workers is believed to contribute to better products and services.

CMT is dedicated to comply with all applicable laws governing the industry and with the ILO conventions already embedded in its ethical values. Other than compliant, CMT feels socially responsible and goes beyond industry standards to uphold the standard of living of its people.

A harmonious rapport and respect between employees and management together with compliance to environmental regulations are believed essential for a better quality of life for workers and the community.

CMT, a 100% organic cotton, CMIA approved and fair-trade certified garment manufacturer.

All of CMT’s vertically integrated operations are accredited by the FLO-CERT Trade Certification, EKO Sustainable Textile and Organic Exchange programme.

Chapter-3

Performance Evaluation

Aggregate ROE model

Aggregate ROE model is the measurement of overall performance of the organization. It concerns with how much return the organization get against the investment. It is a measure of the profitability of a business in relation to the book value of shareholder equity, also known as net assets or assets minus liabilities. ROE is a measure of how well a company uses investments to generate earnings growth.

This aggregate ROE model decomposes its components to determine the strengths of an individual company's performance with other companies.

Step 01:

ROE= ROA x EM

= (Net Income/Total Assets) x (Total assets/Total equity)

Step 02:

Net Income (NI) = Total Revenue (TR)-Total Expenses (TE)

The effect of dividing both sides of above equation by total assets is to decompose ROA:

NI/TA= (TR/TA)-(TE/TA) which is,

ROA= Assets Utilization- Expense ratio

This implies that maximizing assets utilization and minimizing the expense ratios can maximize ROA of company.

Step 03:

Total revenues can be further decomposed into:

TR= Interest Income (II) + Non-Interest Income (NII) + Net Profit/ Loss on sale of securities (PS)

Dividing throughout by total assets, we get

TR/TA = (II/TA) + (NII/TA) + (PS/TA) in other words,

Assets utilization= Yield on assets + Non-interest income rate + Profit rate on sale of securities

Step 04:

Similarly, total expenses can also be further decomposed into

TE= Interest Expenses (IE) + Overhead Expenses (OE) + Provisions (P)

Again dividing throughout by total assets we get,

TE/TA= (IE/TA) + (OE/TA) + (P/TA)

Here, first term represents the cost of funds for the bank, second term represents the overhead expense rate, and third term signifies, to a large extent, the asset quality for the company.

In this manner, every aspect of bank operations can be examined for analysis and decision-making.

To sum up the whole framework of ROE model,

ROE= (ROA) x (EM)

= (Assets Utilization- Expense ratio) x EM

Stated differently,

ROE= (NI/TA) x (TA/TE)

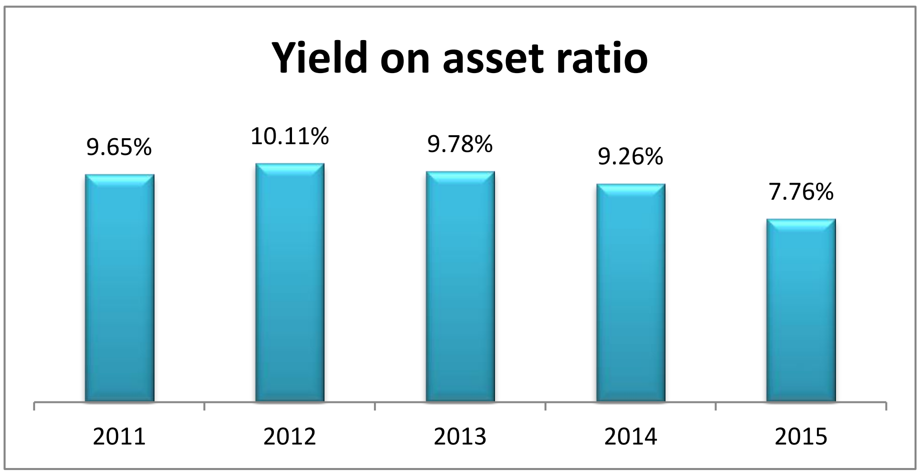
= (NI/TR) x (TR/TA) x (TA/TE)

= Profit margin x Asset utilization x Equity multiplier

Assets utilization= Yield on assets + Non-interest income rate + Profit rate on sale of securities

TR/TA = (II/TA) + (NII/TA) + (PS/TA)

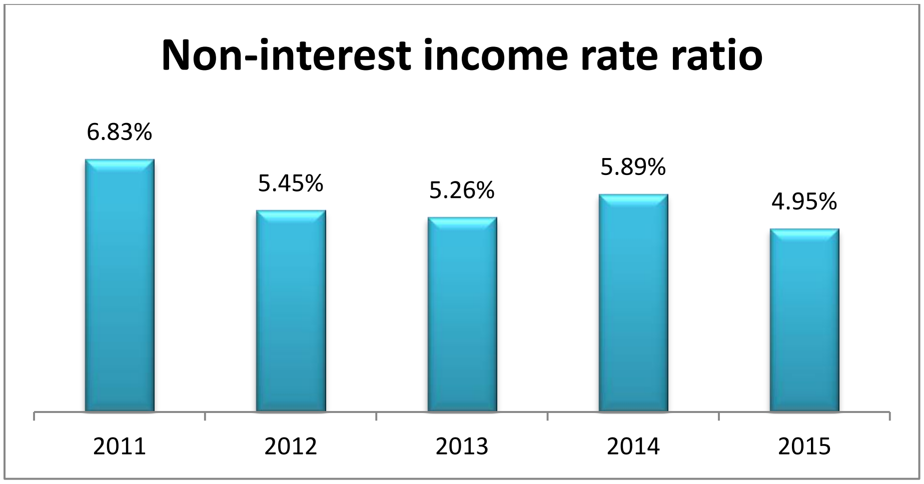
Yield on asset ratio:



Yield on asset ratio is a financial solvency ratio that compares a financial institution's interest income to its earning assets. Yield on earning assets (YEA) indicates how well assets are performing by looking at how much income they bring in.

For calculating the yield on asset ratio of Consumer Knitex Ltd, I consider all of their interest income and divide them by the total asset. From 2011 to 2015, I can see that the Company had the higher yield on asset ratio in 2012 which is 10.11% but in 2015 it fall to 7.76%. So, if the Company wants to increase its efficiency level it has to increase all of its interest income for getting higher yields on asset ratio.

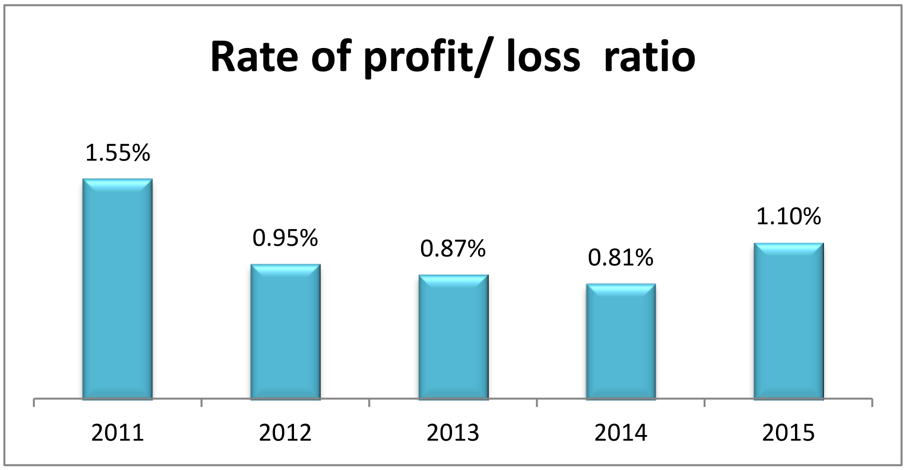
Non-interest income rate ratio:



Non-interest income is bank and creditor income derived primarily from fees including deposit and transaction fees, insufficient funds (NSF) fees, annual fees, monthly account service charges, inactivity fees, check and deposit slip fees, and so on. Institutions charge fees that provide non-interest income as a way of generating revenue and ensuring liquidity in the event of increased default rates. Credit card issuers also charge penalty fees, including late fees and over-the-limit fees.

For calculating the non-interest income rate ratio of Consumer Knitex Ltd, I consider all of their non-interest income such as investment income, commission, exchange and brokerage and from other operating income. From 2011 to 2015, we can see that the Company had higher non-interest income rate ratio in 2011 which is 6.83% but it fall down to 4.95%. So, if the Company wants to increase its efficiency level, it has to increase all of its non-interest income for getting higher non-interest income rate ratio.

Rate of profit/ loss ratio:



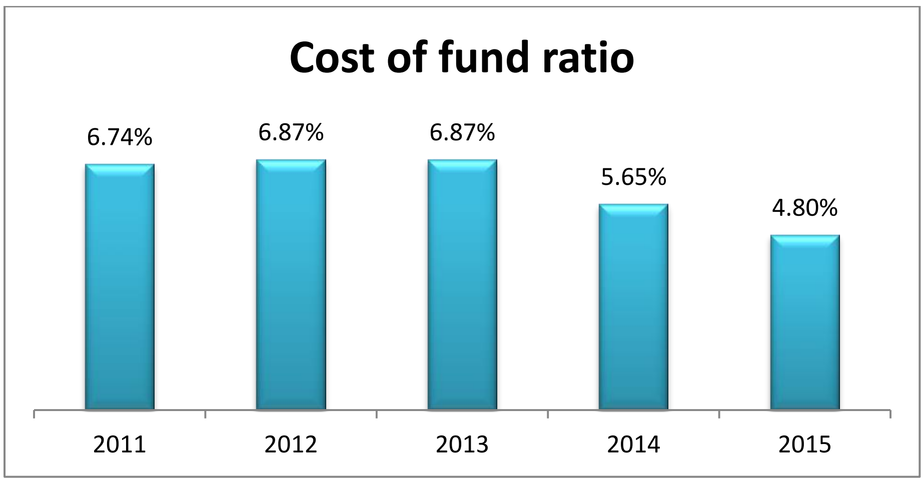
The profit/loss ratio refers to a trading system's ability to generate profits over losses. The profit/loss ratio is the average profit on winning trades divided by the average loss on losing trades over a specified time period.

For calculating the rate of profit/loss ratio of Consumer Knitex Ltd, I have to consider its total profit/loss on sale of securities and divide it by total asset. From 2011 to 2015, we can see that the Company had higher rate of profit/loss ratio in 2011 which is 1.55% but from 2012 to 2014 it fall down. Again in 2015 it increases to 1.10%. So bank must try to hold it for the sake of efficiency.

Total Expense = Interest Expenses (IE) + Overhead Expenses (OE) + Provisions (P)

TE/TA= (IE/TA) + (OE/TA) + (P/TA)

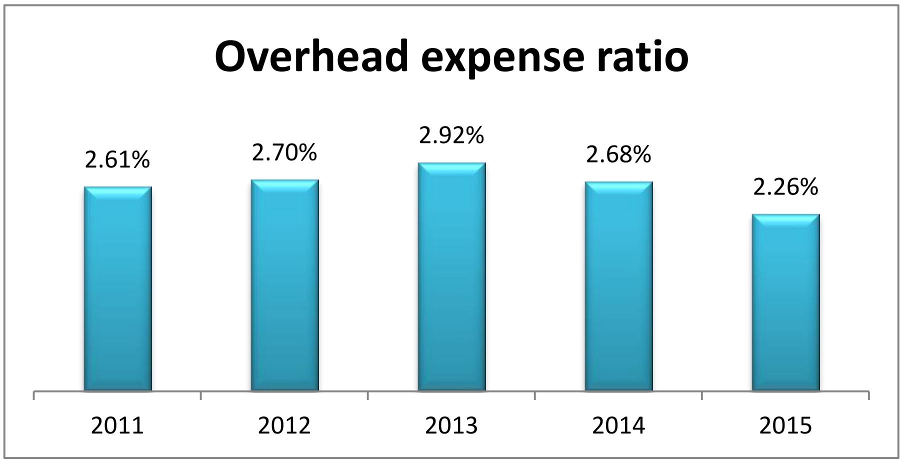
Cost of fund ratio:



Cost of funds is the interest rate paid by financial institutions for the funds that they deploy in their business. The cost of funds is one of the most important input costs for a financial institution, since a lower cost will generate better returns when the funds are deployed in the form of short-term and long-term loans to borrowers. The spread between the cost of funds and the interest rate charged to borrowers represents one of the main sources of profit for most financial institutions.

For calculating the cost of fund ratio I have to consider all interest expense such as interest paid on deposits and borrowings and divide it by total asset. From 2011 to 2015, we can see that the Company had higher cost of fund ratio in 2011,2012 and 2013 which is 6.74%,6.87% and 6.87% but from 2014 and 2015 it fall down which is 5.65% and 4.80%. It’s a good sign for the Company.

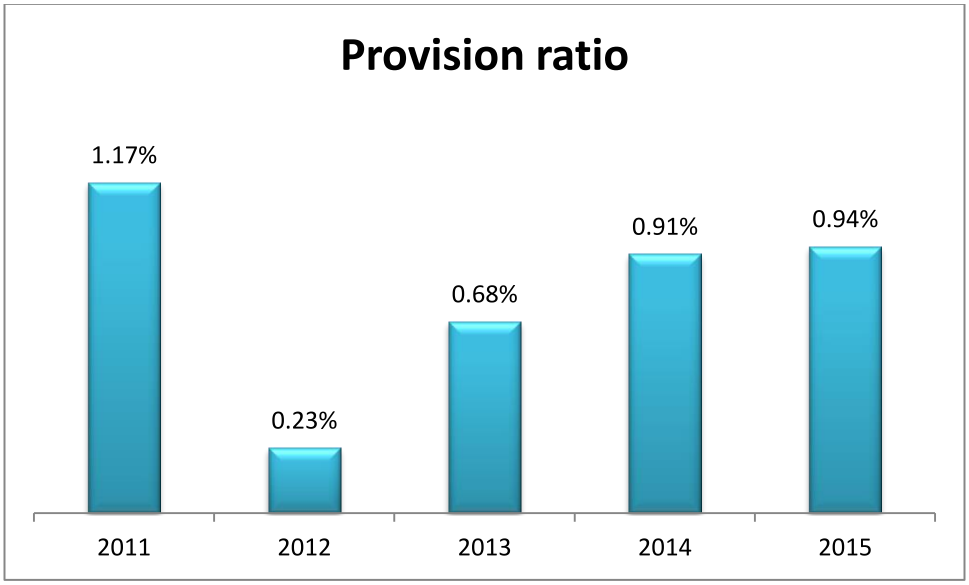
Overhead expense ratio:



Overhead expense ratio is a comparison of operating expenses and total income that is not directly related to the production of a good or service. A firm's operating expenses are expenditures that result from normal, day-to-day business operations. Operating expenses include advertising, office rent, professional fees, utilities, insurance, machinery maintenance, depreciation or plants or machinery, etc.

For calculating the overhead expense ratio we have to consider all overhead expenses such as salaries and allowances, Rent, taxes, insurance, electricity , legal expenses, postage, stamps, telecommunication, directors fees, auditors fee, stationery, printings, advertisements, managing directors salary and allowances, depreciation, leasing expense and repair of bank's assets, other expenses etc. Then divide by the total assets. From 2011 to 2015, we can see that the bank had higher overhead expense ratio in 2012 and 2013 which is 2.70% and 2.92% but in 2014 and 2015 it fall down which is 2.68% and 2.26%. It will help for raising the efficiency of the bank.

Provision ratio:



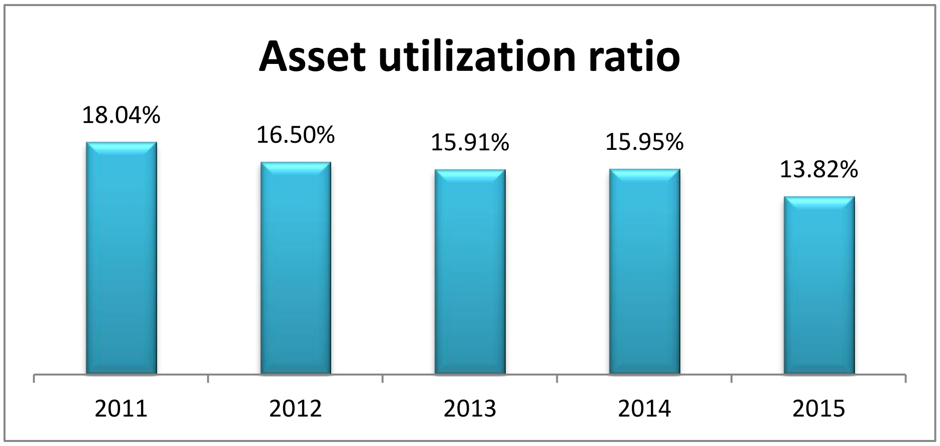
Provision is an expense set aside as an allowance for uncollected loans and loan payments. This provision is used to cover a number of factors associated with potential loan losses including bad loans, customer defaults and renegotiated terms of a loan that incur lower than previously estimated payments. Loan loss provisions are an adjustment to loan loss reserves and can also be known as valuation allowances.

For calculating the provision ratio we have to consider all provisions such as provision for loans and advances, specific provision, general provision, provision for off balance sheet items, provision for diminution in value of share, provision for other. Then divide the total provision by the total asset. From 2011 to 2015, we can see that the bank had lower provision ratio in 2011 which I 0.23% but in 2014 and 2015 it's contiguously increasing which is 0.91% and 0.94. If the bank wants to hold its efficiency level, must decrease its provision ratio.

ROA= Assets Utilization- Expense ratio

NI/TA= (TR/TA)-(TE/TA)

Asset utilization ratio:

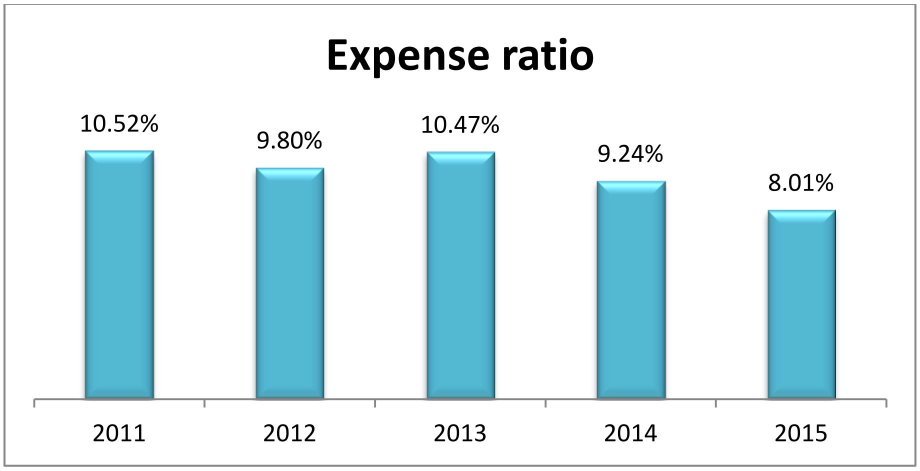


Asset utilization is a ratio used by business analysts to determine how well a company is using its available assets to generate a profit. Asset-utilization ratios are used to determine the profitability of everything from inventory to accounts receivable, sales and total asset turnover.

The higher the utilization ratio of any given asset, the more profit makes a company. With accounts receivable, it is helpful to know the accounts receivable turnover, or number of times per year that accounts receivables is collected. From here, an analyst can determine the average collection period for the company.

For calculating the asset utilization ratio of Consumer Knitex Ltd, I have to sum up the yield on asset, non-interest income rate and the rate of profit/loss. Then divide the total summations value with the total asset. From 2011 to 2015, we can see that the Company had the higher asset utilization ratio in 2011 which is 18.04% and it’s become decrease from 2012 to 2015. In 2015 its asset utilization ratio decreased in 13.82%. So the bank is in risky situation because of the fall in the asset utilization ratio.

Expense ratio:



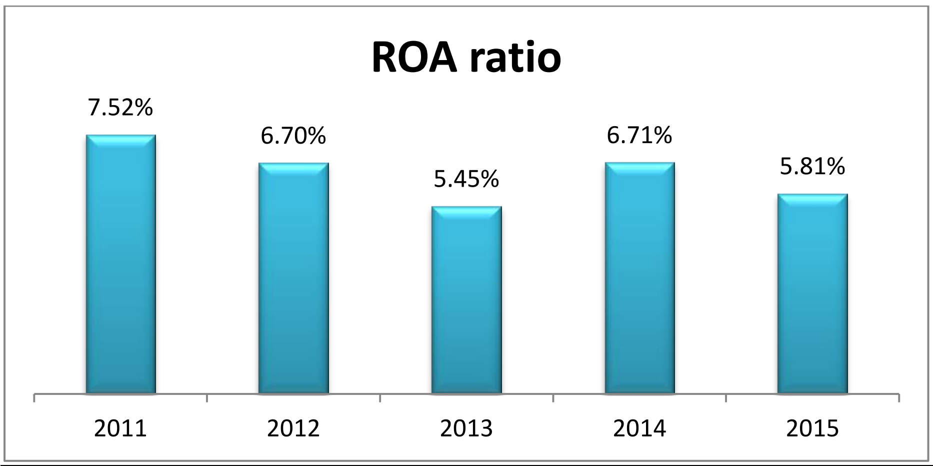
The expense ratio is a measure of what it costs an investment company to operate a mutual fund. An expense ratio is determined through an annual calculation, where a fund's operating expenses are divided by the average dollar value of its assets under management (AUM). Operating expenses are taken out of a fund's assets and lower the return to a fund's investors. It is also known as the management expense ratio (MER).

For calculating the expense ratio of the Consumer Knitex Ltd., I have to Sum up the cost of fund, overhead expense and provision. Then divide the total value by the total asset. From 2011 to 2015, we can see that the Company had the higher expense ratio in 2011 which is 10.51% but if fall in 2015 which is 8%. It indicates that Consumer Knitex Ltd. is in the good position.

Return on Equity = (Net Income/Total Assets) x (Total assets/Total equity)

ROE= ROA x EM

ROA ratio:

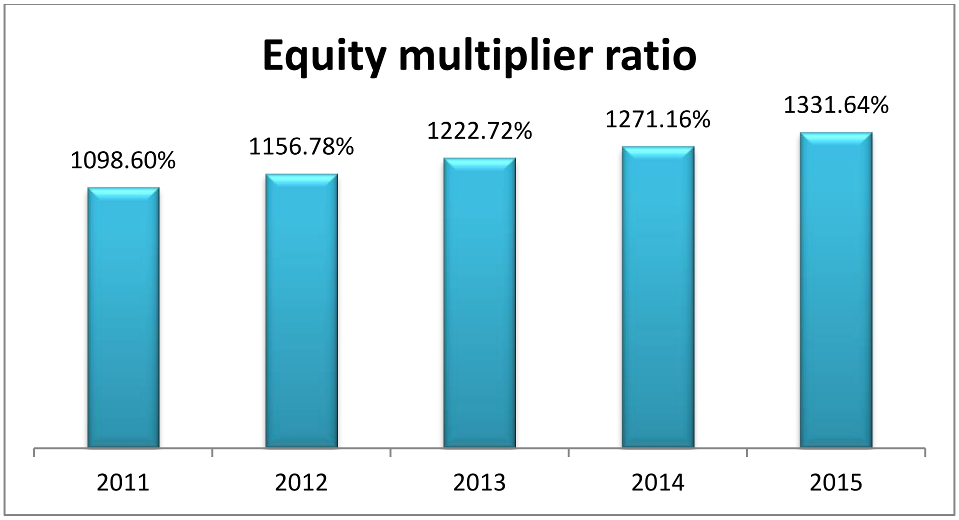


Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings. Return on assets is displayed as a percentage and its calculated as:

ROA = Net Income / Total Assets

ROA ratio is the difference between the asset utilization ratio and expense ratio. We can see that the ROA ratio in 2011 had the higher ROA ratio which is 7.52% but it fall from 2012 to 2013. But in 2014 it increases which are 6.71% but it fall down in 2015 which is 5.81%. As we know that higher the ROA ratio higher the efficiency level. So the Company has to avoid this falling down situation and try to raise its ROA ratio.

Equity multiplier ratio:



The equity multiplier is a financial leverage ratio that measures the amount of a firm's assets that are financed by its shareholders by comparing total assets with total shareholder's equity. In other words, the equity multiplier shows the percentage of assets that are financed or owed by the shareholders. Conversely, this ratio also shows the level of debt financing is used to acquire assets and maintain operations.

Like all liquidity ratios and financial leverage ratios, the equity multiplier is an indication of company risk to creditors. Companies that rely too heavily on debt financing will have high debt service costs and will have to raise more cash flows in order to pay for their operations and obligations.

For calculating the equity multiplier ratio, we have to divide the total asset by the total equity. From 2011 to 2015 we can see that the Consumer Knitex Ltd.'s equity multiplier is contiguously rising. In 2015 it had the higher ratio which is 1331.6%.

ROE MODEL:

	2011	2012	2013	2014	2015
Yield on asset ratio	9.65%	10.11%	9.78%	9.26%	7.76%
Non- interest income rate ratio	6.83%	5.45%	5.26%	5.89%	4.95%
Rate of profit/ loss ratio	1.55%	0.95%	0.87%	0.81%	1.10%
Asset utilization ratio	18.04%	16.50%	15.91%	15.95%	13.82%
Cost of fund ratio	6.74%	6.87%	6.87%	5.65%	4.80%
Overhead expense ratio	2.61%	2.70%	2.92%	2.68%	2.26%
Provision ratio	1.17%	0.23%	0.68%	0.91%	0.94%
Expense ratio	10.52%	9.80%	10.47%	9.24%	8.01%
ROA ratio	7.52%	6.70%	5.45%	6.71%	5.81%
Equity multiplier ratio	1098.60%	1156.78%	1222.72%	1271.16%	1331.64%
ROE	82.60%	77.49%	66.59%	85.34%	77.38%

For the measurement of ROE on Consumer Knitex Ltd., we used year (2011-2015) ROA and equity multiplier. We can see that in 2011 the company is more efficient because ROA is 7.52%.But from 2012 to 2013 it fall down to 6.70% and 5.45%. Then in 2014 it again increases to 6.71% but in 2015 it fall down to 5.81%. So if the Company wants to improve ROA, Company must maximize asset utilization ratio and minimize the expense ratio in 2015. So ultimately this will improve the ROE.

Chapter-4

Risk Management

Risk Management

The term risk management is applied in a number of diverse disciplines people in the field of statistics, economics,psychology,social,sciences,biology,engineering,toxicology,system analysis, operational research, decision theory to name few have been addressing in the field of risk management.

What is Risk?

"Risk has been defined as the combination of likelihood of a failure and consequences of the failure. "Risks can be defined many things but at the root of every definition is the fact that risks represents uncertain outcomes. These outcomes can be either negative or positive opportunities (opportunities for excellence) as well as negative threats.

Risk is uncertainty and uncertainty lays opportunity, without uncertainty, there's little chance to profit.

"Risk is nothing more than the possibility of something unexpected happening."

Risk statement

For a risk to be understandable the risk statement must include.

- A description of the current conditions that may lead to the loss.
- A description of the loss

Risk management is the decision making process involving considerations of political social, economic and engineering factors with relevant risk assessment relating to a potential hazard so as to develop analyze and compare regulatory options and to select the optimal regulatory response for safety

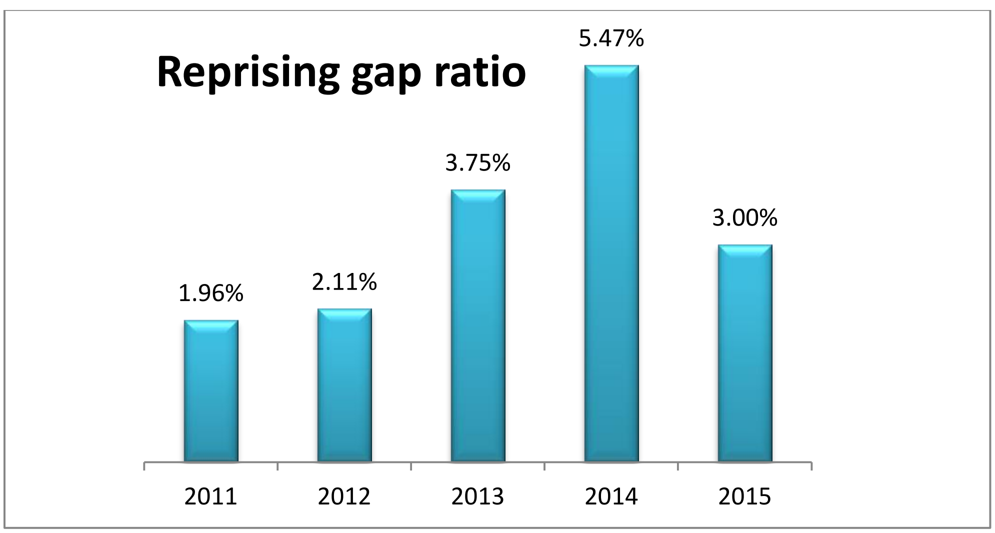
Banks are in the business of taking risk and devising risk mitigates for survival and growth in order to ensure safety and adequate return for all shareholders, depositors, borrowers, employees etc. OBL strongly believes that risk management is crucial and bank management is ultimately risk management. But at the same time, OBL focuses its risk management as a tool for ensuring continuous and sustainable growth of business and profit through better trade-off between risk and return. Their main risk arises from credit extension to the borrowers. Besides, other types of risks are also there such as operational, market, concentration, and liquidity, legal, reputational, cross country etc. Considering all these, OBL risk management system is designed to maximize risk adjusted returns while keeping in view that any viable business opportunity is not missed out.

Reprising Gap:

The repricing gap is the dollar value of the difference between the book values of assets and liabilities with a certain range of maturity (called a bucket). Steps to Calculate the Repricing Gap and Cumulative Gap are given below:

1. List the firm's assets and liabilities by bucket.

2. For calculating the reprising gap ratio of the one bank, we have to divide the total gap value by the total assets.



From 2011 to 2015, we can see that the banks ratio is continuously increasing that means interest income is more than interest expense and we assume that interest rate increase 1%. Ultimately its net interest income also increases. It indicates that one bank is in the good position.

year	RSA	RSL	Gap	cumulative gap	change in NII
2011	59223269080	57899756359	1323512721	1323512721	13235127.21
2012	74962296545	73176142126	1786154419	3109667140	31096671.4
2013	90566583545	86713409633	3853173912	6962841052	69628410.52
2014	108278148781	101612319594	6665829187	13628670239	136286702.4
2015	1133962233122	131339898100	1002622335022	1016251005261	10162510053

For the measurement of interest risk exposure of Consumer Knitex Ltd., I used year (2011-2015) risk sensitive assets and liabilities for the time 1 day to 90 days, 3 month to 6 months and 6 months to 1 year. For the simplicity of calculation I assumed that the Company target period for one year. From 2011 to 2015 its gap is continuously increasing. I found the GAP for 2015 is 1,002,622,335,022 and the gap ratio is 650.24%. In this condition the gap is positive and the interest rate is increase 1 %, interest income is affected more than the interest expense. It will increase the net interest income. So, we can see that the Company will subject interest risk exposure for the next year.

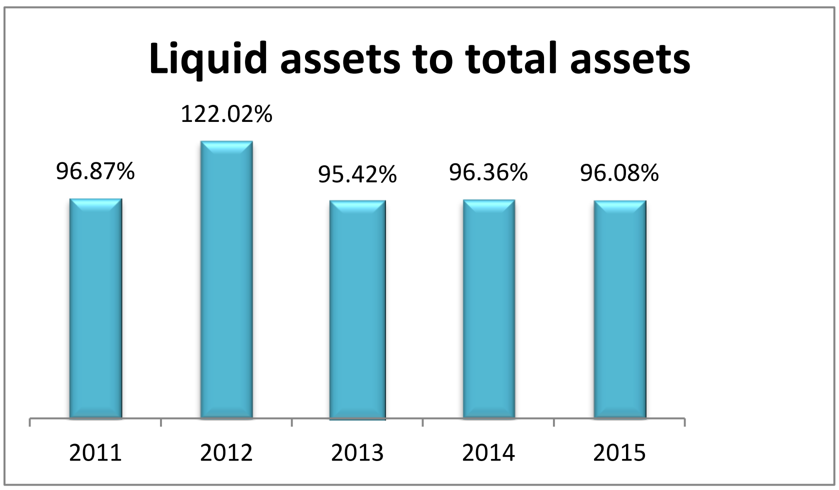
Market Risk:

Market risk is the possibility for an investor to experience losses due to factors that affect the overall performance of the financial markets in which he is involved. Market risk is also called "systematic risk," cannot be eliminated through diversification, though it can be hedged against. This company’s market risk is very high because there is so many competitive for the company.

Liquidity risk ratios:

The object of liquidity risk management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. To this end, the Company is maintaining a diversified and stable funding base comprising of core retail and corporate deposits and institutional balance. Management of liquidity and funding is carried out by Treasury Department under approved policy guidelines.

Liquid assets to total assets ratio:



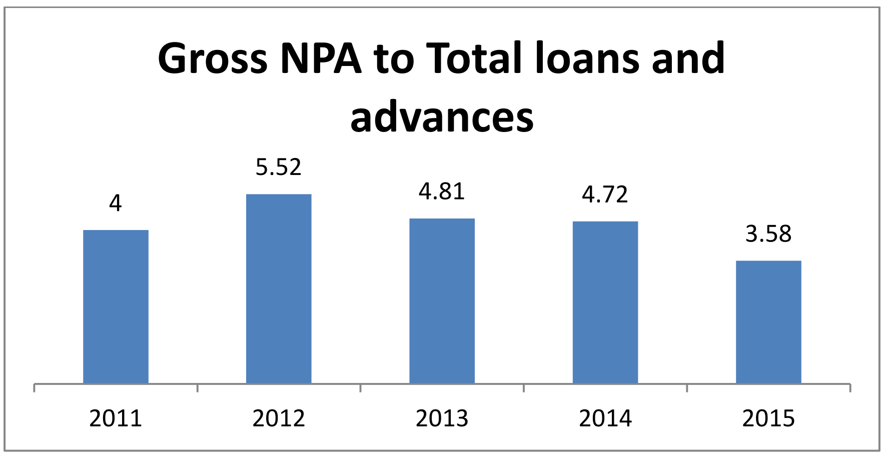
For calculating the liquidity assets to total assets ratio of the Consumer Knitex Ltd., we have to divide the total liquidity assets by the total assets. From 2011 to 2015, we can see that the Company had the higher liquidity assets to total assets ratio in 2012 which is122.02%. From 2013 to 2015, this ratio is continuously falling down. It indicates that Consumer Knitex Ltd. is in the higher risky position.

Credit Risk Ratios

Credit Risk: Credit risk is the risk of financial loss resulting from failure by a client or counter party to meet its contractual obligations to the company. Credit risk arises from the Company's dealings with or lending to corporate, individuals, Clients and supplier.

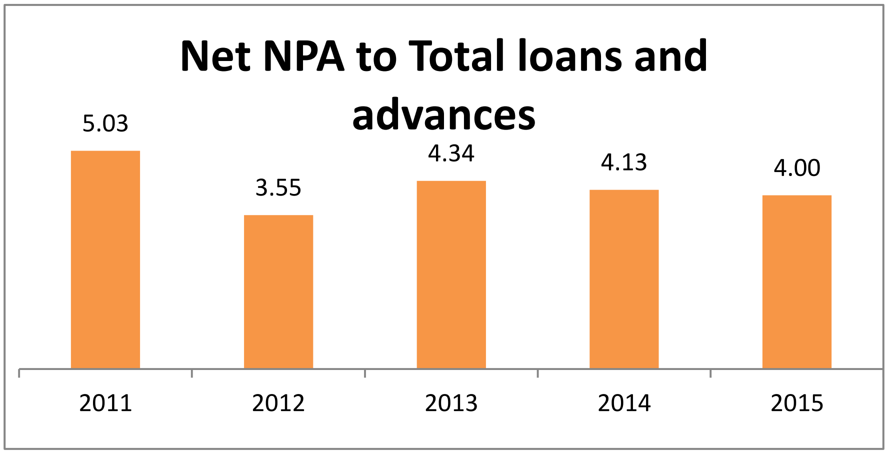
Non-Performing Loan (NPA) ratio:

Gross NPA to Total loans and advances



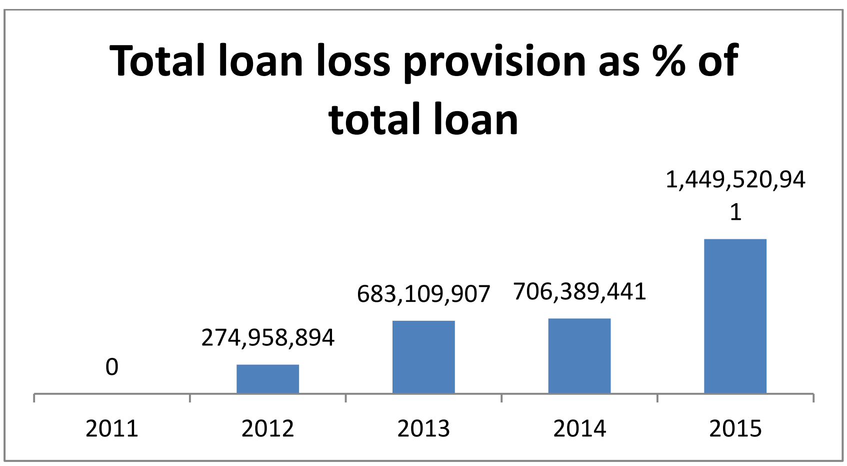
Gross NPA is the total number of NPAs of the company simply added. Consumer Knitex Ltd. would continuously assess this by evaluating their loan payments and decide the NPAs. When the NPA occurs, it is not just an interest income loss to the Company, but a principal loss as well. If the ratio is higher, credit risk is higher. Here in 2012 the credit risk is 5.52% which is higher than others. In 2015 the credit risk is lower which 3.58% is. So the position of Consumer Knitex Ltd. is good.

Net NPA to Total loans and advances



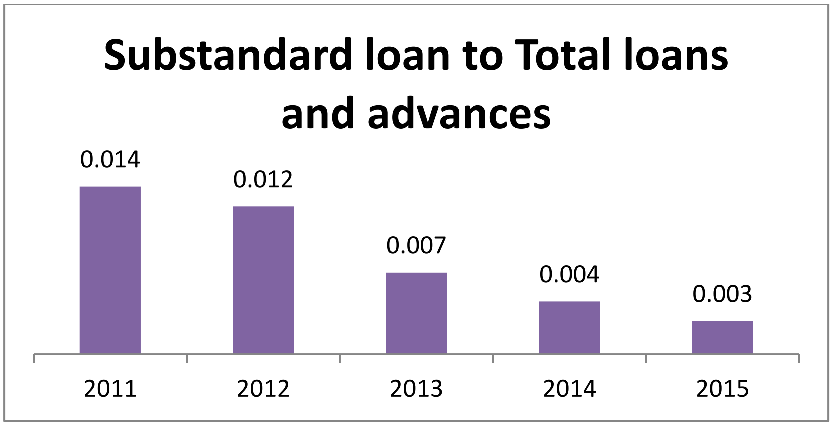
Net NPA is simply the total bad assets (actual) minus the provision left aside. If the ratio is higher, credit risk is higher. Here in 2011 the credit risk is 5.03 which are higher than others.

Total loan loss provision as % of total loan



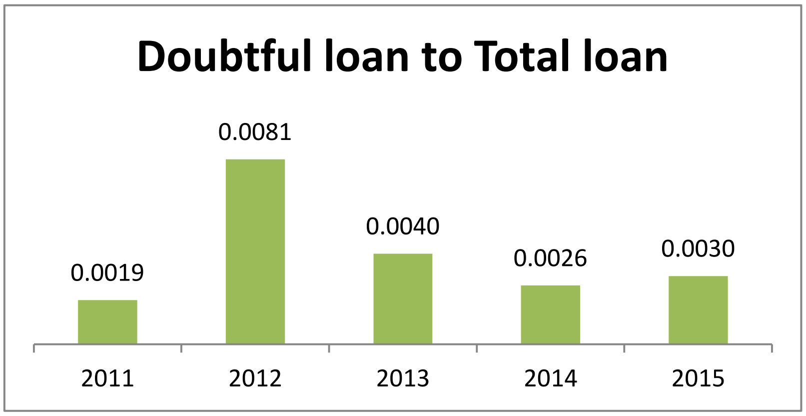
Loan loss provision is an expense set aside as an allowance for uncollected loans and loan payments. This provision is used to cover a number of factors associated with potential loan losses including bad loans, customer defaults and renegotiated terms of a loan that incur lower than previously estimated payments. Loan loss provisions are an adjustment to loan loss reserves and can also be known as valuation allowances. It is calculated as the percentage of total loan which portion is happened the loss. If the ratio is higher, credit risk is higher. Here in 2015 the credit risk is 1449520941 which is higher than others.

Substandard loan to Total loans and advances



A classification for a loan that is expected to result in a loss of interest for the lender, because the borrower is unlikely to be able to completely pay back the loan for some reason. A lender will occasionally agree to a substandard loan even though it means some revenue will be lost, because typically no principal is lost on a substandard loan, only some interest. If the ratio is higher, credit risk is higher. Here in 2011 the credit risk is 0.014 which is higher than others.

Doubtful loan to Total loan

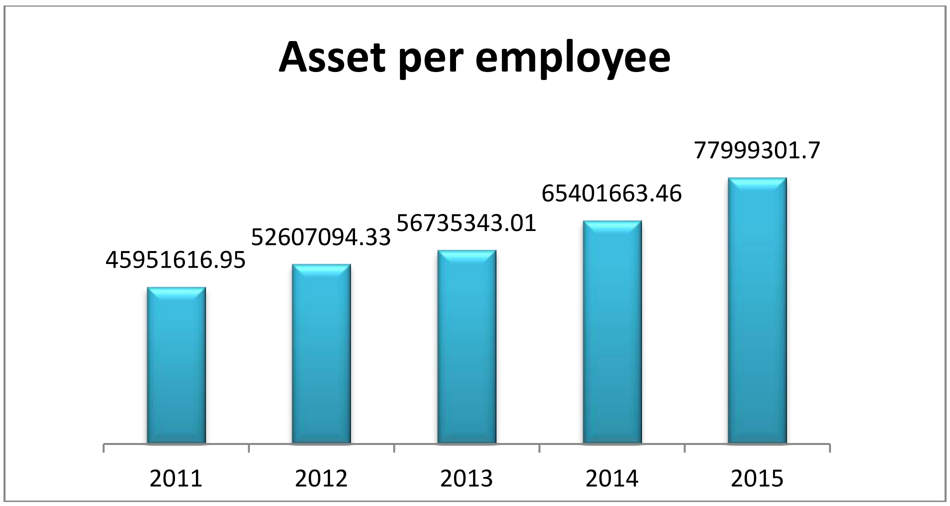


Doubtful Loan is a loan where full repayment is questionable and uncertain. Degree of repayment of loans in question range from a complete loss to uncertain loss unless corrective actions are taken. If the ratio is higher, credit risk is higher. Here in 2012 the credit risk is 0.0081 which is higher than others.

Operational risk

Operational Risk is defined broadly and as a causal risk - the risk of loss due to failures in people, processes, systems or external events. It underlies many other risks, in particular regulatory and reputation risks, which are fundamental to the business model for financial institutions. It has also become a very costly risk for firms which have not managed it well. It is also a discipline which continues to develop rapidly in sophistication and relevance to business decision making.

Asset per employee ratio:



For calculating the asset per employee ratio of the Consumer Knitex Ltd., we have to divide the total asset by the total employee. From 2011 to 2015, we can see that the Company had the lower ratio in 2011 which is 45951616.95% but after 2011 it is continuously increasing. In 2015 it had the higher ratio which is 77999301.7%it indicates that one Company is in the good position and it has the lower risk.

Chapter-5
Conclusion

CMT is one of the leading vertically integrated garment manufacturers in the world. Their Mission Statement: “We strive to be the world’s number one fashion-wear manufacturer by investing in technology, promoting training and development for our people. By becoming a hub for learning, they will contribute to our country’s social and economic development. Our passion shall take us beyond our dreams!” A commitment to fashion and a fervour for being the best.

Launched with two ambitious entrepreneurs and 30 employees in 1986, it was just a simple plan – to create a good quality product and provide world-class service. CMT has grown into a respected and committed employer of choice with many employees growing up with the company from its first days.

References

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