



PROJECT REPORT

ON

**FINANCIAL STATEMENT ANALYSIS AND INTERPRETATION
OF**

Saujiko Trading limited

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Introduction To Saujiko Trading Limited

Saujiko Trading Limited is an south asian multinational corporation founded in 1997 that supply Nepali garments and home decoration products. Saujiko trading is headquartered in New baneshowr, Kathmandu,Nepal. The corporation includes some 150 subsidiary companies and products sold in over 45 countries. As of 2020 the Saujiko trading ltd. had 5000 employees as well as not less then 10 million active customers .Saujiko Trading limited generally collects the handycraft product from Nepalese market and export those item in different south asian countries. Products like pasmina swal, nepali carpet, sheep wool clothes and blankets, Dhaka products, handmades paper products, Bhojpure Khukuri, bamboo furniture etc. Saujiko Trading LTD.had worldwide sales of about 25 croer during 2020. It had net earning about 25% of the total revenue. It is one of the leading suppliers of nepali products with 35% of the sales in its market in 2020.Saujiko Trading LTD had received various bunches of award from the world trade organization in 2020, award from Nepal government for Representing nepali products in whole world, customer satisfaction award ,top business brand in south Asia ,best quality product etc.

But after 2020 the company's revenue has been decreased simultaneously. For last one year, This firm had been suffering from declination of its net income and the management team are unable to find out the reason for declination of net income. It has beard a several loss situation as its market sales has been decreased and quickly fell to 10% of the total market which has adversely affect on its profit. So to analyze the situation saujiko trading has hired me as a financial investigators. According to my own research and opinion from others experts, Saujiko trading ltd has been facing agency problem which has created the deficiency in financial performance.

Following Income statement shows the income and expenditure of the saujiro Trading Limited for the year 2020 and 2021.

Particulars	Year 2020(RS)	Year 2021(RS)
sales	3000000	2000000
less: cost of Good sold	400000	300000
Gross profit	2600000	1700000
<u>Less:Operating Expenses</u>		
Office & administrative expenses	100000	160000
Research & develolpment expenes	200000	250000
Selling & distribution expenses	150000	200000
Earing before interst,tax&depreciation	2150000	1315000
less: Depreciation	200000	300000
Earing before interest & tax	1950000	1015000
Less:Interest expenses	100000	200000
Net profit before Tax(EBT)	1850000	815000
Less:Income tax(20%)	370000	163000
Net income after tax(EAT)	1480000	652000

Interpretation:

According to above income statement, the net income of the saujiro trading ltd has been declined in 2021 AD. By Rs.8,28000 respectively. It means exactly 55.94% of net income has been declined. According to financial analysis and analyzing the internal and external environment of Saujiro Trading limited I came to know that the financial performance of our firm is highly affected by some Agency problems.

Understanding Agency problem and its types:

ACCOUNTABLE TO



An agency problem is a conflict of interest between an agent and a principal, where an agent (manager) is a person or group of people who performs a task on behalf of someone else, the principal (stockholders). A conflict of interest occurs when one party doesn't fulfill contractual obligations in favor of their own personal or professional interests. Agents are commonly engaged by principals due to different skill levels, different employment positions. Agency theory assumes that both the principal and the agent are motivated by self-interest. Principal always tries to maximize the wealth of stockholders and give authority to managers to perform the task according to their interest and when managers do not perform the task according to the direction of principles, conflict arise.

Types of Agency Problems:

1. Stockholders and managers:

Shareholders are the real owners of the company however they cannot actively manage the company themselves as they are in large numbers and dispersed in various geographical locations and also they may not have necessary skills, expertise and experience to manage a company. Hence they elect a BOD and CEO to manage and take the responsibility of the company. Shareholders always tries to maximize the firms value and delegate authority to the top level managers to perform a task to according to their interest however managers are concerned with their personal interest, prestige, salary, position, job satisfaction etc. it might result potential loss of wealth for the shareholders resulting in the conflict between shareholders and managers. Moreover, managers have much more information about the firm, hence they can manipulate the information for their personal interest. Furthermore, managers might invest in project without considering the Net present value of the project which might minimize the value of firm.

2. Stockholders and creditors:

Conflict of interest between shareholders and creditors arises when the managers make a decision for shareholders value by ignoring the interest of creditors. Since, creditors provide their capital to the firm at fixed rate of interest for specified period and the firm is authorized to use it for a given time period according to agreed terms and condition. Both shareholders and creditors have claim on assets and earning of the company. Creditors invest their capital to earn a fixed rate of interest and to get the principal paid back upon maturity. Shareholders invest their capital to maximize the market price of their shares. Firms always try to maximize profit from the debt and enjoy their profit themselves, the creditors only get fixed returns on their interest. Hence, the conflict arises when the creditors demand some portion of the profit because they are also taking a risk by providing the fund or capital to the company.

Relating the agency problem with Saujiko Trading Limited

After analyzing the financial performance of the company, the reason for declination of net profit in 2021 is due to agency problem between shareholders, managers and creditors of the Saujiko Trading Limited. I analyzed that the managers are not performing their responsibility according to the direction and instruction of shareholders. The authority delegated by the shareholders are highly misused by the managers as they manipulate the internal information of the company to outsiders for heavy income. They are highly engaged to fulfill their individual desire by using the cash flow of the firm which directly hampered the current liquidity position of the firm. Moreover, the managers do not focus on wealth maximization of shareholders and they invest on such project which net present value is negative and which internal rate of return is less than the cost of capital.

Moreover, Saujiko trading had used debt from creditors for investment purpose in different project but due to lack of knowledge about risk and return from the project, company had beared loss in the year 2021 and it is not able to pay interest to creditors due to that reason there is conflict with creditors . furthermore, managers are using firms capital for their personal purpose without considering the terms and condition of the company. Hence ,above stated argument are possible reason for agency problem in Saujiko trading ltd.

Mechanism to resolve the conflict:

As a financial analyst, I recommend different strategic mechanism to Saujiko Trading Ltd. for resolving of the conflict arises in the company.

1.Delegation of authority:

BOD must delegate authority to the managers who is responsible towards organizational goals .Authority must be delegated according to the ability and authorized person must be guided by the terms and condition of the company.

2. Performance-based compensation plans:

According to the performance, the managers must be provided with good salary, allowances, health insurance facility etc. furthermore, company must provide the bonus, salary and other benefits which can make their life easier.

3. Direct intervention by shareholders:

If managers are not performing their duty according to the welfare of the company, shareholders must select qualified and capable candidate for manager position who can the wealth of shareholders.

4.Effective supervision and controls:

_Managers must supervise their subordinates by effective leadership and they must control and fill the gap between planned task and achieved task by effective supervision.

5.Threat of firing:

If managers/CEO are not working well according to the organizational goal they must be replaced by the candidate who have ability and supervision to achieve the organizational goal.

6.Promotion:

Right person at right place highly determine the performance of the organization .So the employee must be promoted in the position according to their skills , experience and knowledge.

Conclusion:

From above points and arguments I can conclude that, the company is facing the agency problems between managers, shareholders and the creditors so that the company's net income is decreasing in 2021AD.

According to my analysis , if company can manage its internal environment and if managers perform the managerial activities according to shareholders interest company can solve these problem.

Furthermore, if saujiiko trading use the above mentioned alternatives then it can easily resolve the agency conflicts and can able to make sound financial environment in organization.

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