

PROJECT WORK

Cash Flow Management In Forsan Foods

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Name: ***

Reg Number: ***

Place:

Date:

Signature of Student

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CERTIFICATE

This is to certify that **Mr. ***Student Name***** has planned and conducted the project entitled "**Cash Flow Management in Forsan Foods**" under my guidance and supervision and the report submitted therewith was the result of the confide work done by him.

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Place:

(Signed)

Date:

(Project Guide)

ACKNOWLEDGEMENTS

In pursuing and completion of my MBA*** and other commitments, I undertook the task of completing my Project on "**Cash Flow Management in Forsan Foods**".

I am fortunate in having sought and secured valuable guidance, continuous encouragement and strong support at every stage of my guide **Mr. ***** and am deeply grateful to him/her.

Finally, I also acknowledge with deep gratitude, the immense support I received from my family members who have always encouraged me and have been a source of inspiration and help in continuing my effort.

Last but not the least my special thanks go to all those who have given all the secretarial support – despite all other commitments.

Sign

Student Name***

CHAPTER 1

INTRODUCTION

Cash flow is the life blood of all businesses and is the primary indicator of business health. It is generally acknowledged as the single most pressing concern of most small and medium-sized enterprises (SMEs), although even finance directors of the largest organizations emphasize the importance of cash, and cash flow modeling is a fundamental part of any private equity buy-out. In a credit crunch environment, where access to liquidity is restricted, cash management becomes critical to survival.

In its simplest form, cash flow is the movement of money in and out of your business. It is not profit and loss, although trading clearly has an effect on cash flow. The effect of cash flow is real, immediate and, if mismanaged, unforgiving. Cash needs to be monitored, protected, controlled and put to work.

Cash flow is the movement of cash into or out of a business, project, or financial product. It is usually measured during a specified, finite period of time. Measurement of cash flow can be used.

Company Overview

To mark its history of success, it was renamed Forsan Cold Stores in 1981 and its trusted Logo became synonymous with excellence and the power to deliver only the best products and first-rate service. Premium quality from start to finish was and still is the driving force behind Forsan, creating ever-higher standards of hygiene, product quality, transport, and cold store facilities. Inspired with the confidence of its market, Forsan began another successful chapter in its corporate history in 1993 with its bakery, pastry, and confectionary ingredients.

Having expanded its experience as a leading specialized food distributor, Forsan took a giant step in 1997 into distribution of additional products and enriched its meaning in the market place by adopting a new corporate name: Forsan Foods and Consumer Products Co. Ltd.

Forsan Foods & Consumer Products Company Ltd. started its operation in 1979 with its sight set on excellence in serving the needs of all sectors of consumers. With the flagship business of meat distribution, the Company diversified into bakery, pastry ingredients, consumer items and general merchandise.

To keep its competitive edge, Forsan has complete storage facilities in Sulaimaniyah (Riyadh), Al Kharj, Jeddah, Al Khobar, Al Qassim and Khames Mesheit which serve customer's needs with the best of products and raw materials imported from around the world. Whether it is chilled meat, finest bakery ingredients or confectionary products, Forsan has become an incomparable

partner in nationwide food chain. Whatever the consumer needs and the demand of products in the Kingdom, we made a promise twenty four years ago to deliver the best. That promise has been reaffirmed and has guided our corporate life. That is the reason for our continuous success. It is the key to our future.

Respected as an industry leader in specialized in the Kingdom, we continue to grow, meeting new challenges, forming new alliances, and redefining the industry standards.

With the vision of expansion backed up by the increasing demand of our customers, the Company decided to build Factories of Cheese, Butter and Chocolate which are now located 40 km from Riyadh in a land owned by Forsan Foods and it was built in the highest standard for the purpose of food processing quality cheese, butter, chocolate and other dairy products.

We exist for our valued customers. With this clear vision, we promise that Forsan Foods and Consumer Products Co. Ltd. will remain a leader and a winning partner.

Statement of the Problem:

Cash flow is the life blood of all businesses and is the primary indicator of business health. It is generally acknowledged as the single most pressing concern of maximum company, although even finance directors of the largest organizations emphasize the importance of cash, and cash flow modeling is a fundamental part of any private equity buy-out. In a credit crunch environment,

where access to liquidity is restricted, cash management becomes critical to survival.

Why is the particular topic chosen?

The purpose of the thesis is to analysis of cash flow management. I believe that this topic can be utilized as a reference in the study of my course as well as job profile.

What contribution would the project make and to whom?

This would focus deeply in providing effective strategic solution for cash flow management for successfully business.

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CHAPTER 2

OBJECTIVE AND SCOPE

Objective:

- To determine a project's rate of return or value. The time of cash flows into and out of projects are used as inputs in financial models such as internal rate of return, and net present value.
- To determine problems with a business's liquidity.
- Cash flow can be used to evaluate the 'quality' of Income generated by accrual accounting.

Scope:

Scope of cash flow management is to report the results of operations using financial and non-financial measures; its purpose is to help the organization to reach its key strategic objectives.

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CHAPTER 7

FINDING

One should notice that all models except one derived a fair value higher than the market value at the time of valuation. Thus even though the models varied to a large extent, with regards to the assumptions that was made, they all reached a similar recommendation. Thus there seems to be a clear market consensus regarding the fair value of the stock. The reason for this may be that the market does not realize the full potential of FORSAN FOODS according to the Analysts. A more reasonable explanation may be that the Analysts prefer to make recommendations that correspond to consensus and collectively be incorrect rather than potentially being correct individually.

If it is truly the case that the Analyst is afraid of being unique then it is also in his interest to construct a model that derives a fair value similar to the market consensus. If the assumptions that derive the value of the market consensus cannot be explained

through the theoretical analysis of historical performance the assumptions in the model will appear arbitrarily chosen. Hence, this can also explain the difficulty to analyse the models, why they include hard coded assumptions and why they lack an overall connection to theory.

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CHAPTER 8

RECOMMENDATION

The theoretical recommendations regarding the calculation of the terminal value are the following:

- The model must be constructed in a manner so that true steady state can be determined.
- The company must be in true steady state for a continuing value formula to be applied, i.e. the free cash flows in steady state must grow at a constant rate consistent with the assumed terminal growth rate.
- The terminal growth rate in steady state must be less than or equal to that of the economy.

CHAPTER 9

CONCLUSIONS

The purpose of this thesis was to compare the practical use of the DCF model with the theoretical perspective. The difference between the theoretical recommendations and the empirical findings regarding the selected aspects in this study were found significant. If the theoretical recommendations are used as determinants of quality then it is also concluded that the vast majority of the models were of poor quality. Additionally, there were significant errors in some of the models. It is also likely that errors exist in these models regarding other aspects that were not included in this study.

The empirical study included approximately 50,0 percent of the DCF models that are used in practice to determine the fair value of FORSAN FOODS. Furthermore, the investment banks that provided us with these models are dominant in the market. Therefore, the practical importance of these models in order to determine the aggregated recommendation regarding the FORSAN FOODS stock is significantly great. Given the poor quality of these models this could imply that the overall recommendations regarding the FORSAN FOODS stock are theoretical incorrect and thus the FORSAN FOODS stock is trading at an incorrect value.

This conclusion is probable according to the authors. However checking this conclusion might be, the value of the stock is a function of supply and demand in the market and not a theoretical correct value. If thereby the majority of the market assumes a theoretical incorrect value it will become the prevalent stock market value.

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