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# K.i.M MIDAS - Cashflow Management Report

# GROUP

**Industry Code:** MF
**Job Number:** 1153909518

## *Summary: Overall liquidity strength*

| | Liquidity | 2006 | Credit Ratios | 2005 | Liquidity Rating |
|---|---|---|---|---|---|
| **Current Ratio (x)** | 2.00 | 1.51 | | 1.40 | 4.00 |
| **Quick Ratio (x)** | 4.00 | 0.52 | | 0.55 | 4.00 |
| **Average LR Score (single-year)** | **3.6** | | | | **4.0** |

**Wtd Average LR Score (2- year) 3.7** **LR1 = Excellent liquidity - LR6 = Poor liquidity**

**MODEST GROWTH IN SALES AND OVWRALL CASH LEVELS BUT FURTHER IMPROVEMENTS NEEDED IN THE LEVEL OF LIQUID ASSETS AND INVENTORY MANAGEMENT.**

The firm's overall liquidity ratings suggest that it has a generally satisfactory liquidity position but the proportion of current assets do not provide significant cover to its current liabilities. The firm posted a modest improvement in sales growth that was accompanied by an improving cash balance during the period.

GROUP posted revenue of 347,264,132 compared 337,092,430 in 2005**.** This was a sluggish compared with 2005, registering a change 3.02%**.** On the other GROUP posted a modest change in its cashflows by 3.15%, making its total cash levels forming a relatively small part of its revenue stream at 3.65% compared 3.64% in 2005**.**

The level of operating cashflows may not be adequate to cover its short-term liabilities – reliance on other forms of financing is necessary to support its working capital requirements.

| **Table A** | **2006** | **2005** | ***Notes*** | **2006** | **2005** | **Change (%)** |
|---|---|---|---|---|---|---|
| Cash | 12,667,503.00 | 12,280,175.00 | 1 | 6.95% | 6.67% | 3.15% |
| Trade debtors | 46,293,734.00 | 53,886,997.00 | 2 | 25.41% | 29.27% | -14.09% |
| Stocks | 113,571,212.00 | 104,570,710.00 | 3 | 62.34% | 56.80% | 8.61% |
| Other CA | 659,033.00 | 1,272,942.00 | 4 | 0.36% | 0.69% | -48.23% |

**1** **higher proportion of cash to assets compared with previous year.**
**2-4** **non-cash assets formed around 88% of assets, worth a total $160,523,979 in 2006**

The firm posted a modest improvement in its total cash balances in absolute terms, and this was achieved on the back of an improving revenue growth during the period.

A higher proportion of cash to total assets was achieved during the year - the firm generated higher level of cash for every dollar of assets being invested.

From the table above, it can be seen that a lower proportion of trade debtors exist in its balance sheet for the year – fewer debtors are being generated as a percentage of total assets, compared to the previous period.

Meanwhile, a higher proportion of inventories exist in its balance sheet – more inventories are being stocked up as a percentage of total assets, compared to the previous period.

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***note: Figures generated from the system may differ from published statements due to adjustments and assumptions made to the underlying variables. The operating cashflows stated herein are an estimate only.***

| Cashflow Statement (excerpts) | 2006 | Key comments |
|---|---|---|
| Profits for the period | 5,578,523.00 | GROUP made profits during the year |
| Depreciation | 0.00 | |
| Decrease in trade debtors | 7,593,263.00 | amt customers paid up during the year |
| Increase in stocks | -9,000,502.00 | cash tied up in inventories |
| Decrease in other current assets | 613,909.00 | cash inflows from other non-core current assets |
| Decrease in trade creditors | -12,147,383.00 | amt of cash paid out for supplies |
| Unchanged overdraft levels | 0.00 | no changes in amount of overdrafts for the year. |
| Increase in Other CL | 942,055.00 | amt of credit extension provided by non-trade |
| **Cashflow from Operations** | **-6,420,135.00** | ****Warning** - Overall decline in cashflows from core operations for the year.** |

## *Operational diagnosis: operating cash cycle diagnosis*

There is a deterioration seen in the cash cycle of the firm, with longer collection days experienced as compared with payment and inventory days in total.

| | 2006 | 2005 | Notes |
|---|---|---|---|
| Accounts Receivable Turnover (x) | 6.93 | 6.73 | 5 |
| Average A.R Collection (days) | 52.65 | 54.24 | 6 |
| Average Inventory Turnover (x) | 3.00 | 2.90 | 7 |
| Inventory Days (days) | 121.78 | 125.86 | 8 |
| Average Creditors Turnover (x) | 34.65 | 20.39 | 9 |
| Average Payment Days (days) | 10.54 | 17.90 | 10 |
| **Cash Cycle (days)** | **163.89** | **162.20** | |

**The negative contribution from operating cashflows could be partly explained by:**

Note 5 implies that the firm operates on a cash basis with some improvement or that its extension of credit and collection of accounts receivable is more efficient.

Note 6 An improved turnaround time for debtors to get converted into cash

Note 7 Greater number of times the firm sells its inventory during the year – appears that its products are selling better compared to previous year. May however, be an indication that inventories are running down

Note 8 Less cash tied up in stocks - shorter holding period compared to the previous year

*Note 9* The firm may have decided to hold on to its money longer or that it is having greater difficulty paying creditors. However, the firm may be losing customer discounts if payments not prompt.

*Note 10* **WARNING** Shorter payment days to suppliers vs previous year - need to manage trade cycle more carefully.

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Decide with Confidence

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## *Stress testing on cashflows on operational needs*

| ***ACTUAL FIGURES BELOW** | | *Drop in revenue base - impact on cashflows and profits* | | |
|---|---|---|---|---|
| | **2006** | 5.00% | 10.00% | 30.00% |
| Sales | 347,264,132.00 | | | |
| Operating | 8,285,011.00 | | | |
| Profit after tax | 5,578,523.00 | | | |
| | | | *Amount affected* | |
| | | **17,363,206.** | **34,726,413.** | **104,179,23** |
| **Impact on net profits (new)** | | -11,784,683 | -29,147,890 | -98,600,716 |
| **Impact on net profit margin (new)** | | -3.39% | -8.39% | -28.39% |
| **Impact on total cashflows** | | -4,695,703. | -22,058,910 | -91,511,736 |
| ***Applied against existing operating expenses level*** | 8,285,011.00 | | | |
| **Net cash balance / (deficit)** | | **-12,980,714.6** | **-30,343,921.** | **-99,796,747** |
| | | **WARNING** | **WARNING** | **WARNING** |

**Availability of funding from key sources**

| | |
|---|---|
| Trade debtors | 46,293,734.00 |
| Stocks | 113,571,212.00 |
| Short-term loans | 93,490,579.00 |
| Long-term loans | 29,988,310.00 |
| Total | 313,332,145.00 |

***note: Quality of current assets need to be assessed by the user of this report. For instance, how liquid are the inventories, how saleable and the quality of its debtors - can this be reasonably collected and to what extent this can be financed by the banks or financial institutions.***

| | *Drop in revenue base - impact on cashflows and profits* | | |
|---|---|---|---|
| | 5.00% | 10.00% | 30.00% |
| **Additional funding required to support working capital needs (estimated)** | **0.00** | **0** | **0** |
| % of total assets | 0.00% | 0.00% | 0.00% |
| % of total equity | 0.00% | 0.00% | 0.00% |
| % of total sales | 0.00% | 0.00% | 0.00% |

## Key comments from the what-if

Despite stress-testing the revenue flow of the firm across values between 5% to 30%, the firm may not require additional funding as its existing assets and financing facilities should be adequate to cover the deficit. However, the quality of assets and readiness of the banks to be liquidated and to continue its financing facilities respectively need to be ascertained before conclusively assert this view.