

Based on the financial ratios and the analysis of the industry, I would recommend that Wacky Wines be given a loan to facilitate its expansion. From the financial analysis, the ability of the company to repay its short term debts through current ratio increases from 2015 to 2018 from 2.9 to 4.7 respectively. The projected values also increase from 4.5 in 2019F to 7.7 in 2021F. The debt-to-asset ratio also decreased from 0.5 in 2016 to 0.3 in 2018. The projected values also decreased from 0.5 to 0.3. This shows that the firm's ability to repay its debts has been increasing. A summary of the financial ratios is given in appendix B. Comparison of the graphs for the performance is given in appendix C.

Du Pont analysis is used to determine the variations in different drivers of ROE. In 2016, the ROE reduced to 0.23 due to a decline in asset turnover ratio and equity multiplier. The declines in ROE through the years are due to a decrease in the equity multiplier, asset turnover ratio or the profit margin. A summary of the financial ratios is given in appendix A. In the worst case scenario, the ROE declines through 2018 from 24.6% in 2015 to 10.83. This is due to asset turnover ratio or the equity multiplier. The projected ROE declined in 2020F and increased in 2021F. A summary of the financial ratios is given in appendix B. Comparison of the graphs for the performance is given in appendix C.

What does the mean f.r
wacky wines? +9

The profitability ratios measure the ability of a firm to make profit from the revenue. The return on assets, operating profit margin and the gross profit rate are used in this case. In the expected scenario, the values increase up to 2018. This could be due to an increase in the net income. However, the projected values are also increasing showing that the company is expected to be more profitable. A summary of the financial ratios is given in appendix A. In the worst case scenario the values increase through 2018 and the projected years. The values are all above the

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industry average meaning that the company is performing well. A summary of the financial ratios is given in appendix B. Comparison of the graphs for the performance is given in appendix C. ✓

need more about what is driving changes

Working capital, current ratio and quick ratio are used to show the changes in the liquidity of a company. ✓ The current ratio increases through to the projected years. This shows that the ability to meet short term debts increases. ✓ The quick ratio is also increasing. On the other hand, the working capital is negative all through showing that the assets are lower than liabilities. A summary of the financial ratios is given in appendix A. On the worst case scenario, quick ratio and current ratio increases though slowly. The working capital remains negative. The industry average is lower than the projected values for the current and quick ratio hence the firm performs better. It is however positive for working capital which affects the firms position negatively. A summary of the financial ratios is given in appendix B. Comparison of the graphs for the performance is given in appendix C.

what does this mean?

The debt to asset ratio declines through the years up to 2018. This is due to an

accumulation of assets compared to debt. The term debt coverage and interest coverage increase through 2018. ✓

why?

The industry value for asset ratio is 0.34 which is lower than what the firm has ~~acquired~~.

Comparing the repayment capacity shows that the industry values are lower hence the firm is well placed. ✓

efficiency

The inventory turnover day's sales in turnover and total asset turnover all indicate the efficiency of a firm. In the industry the values are 4.6, 378.01, and 0.097

respectively. Inventory turnover in expected case increased through 2018. The total asset

turnover remained constant at 2.78. In the worst case scenario the trend was similar with turnover

rate increasing. A summary of the performance is given in appendix C.

what is the future?

The factors in the industry which affect the firm include competition which affects the profitability and the availability of market. Secondly, is customer demand (Karimi & Walter, 2016). This is driven by quality and the services of the firms. Lastly, is the availability of substitutes which are affordable and of high quality. They make the customer demand less of the wine provided. *Conditions? How is the sector performing?*

There are five important character analyses to the qualification of a firm for a loan. First of all is professional ability. Wacky Wines has competent staff and hence can deal with the creditors professionally (Ata et al., 2015). Secondly, is history of credibility based on repayment of previous loans. The third, character analysis is the collateral which is the assets which are used to secure loans. Higher assets guarantees high loan. The personal and other funds invested in the business are also considered. This will determine the risk of a company becoming a bad debtor. Lastly is the income and revenue. A firm is given a loan that is equivalent to its financial performance. *I Am Lost, did you consider that?*

The five C's of credit are character, capacity, capital, conditions, and collateral. The character is linked to the solvency of the company and ability to pay back borrowed money. Secondly is capital which is the amount of owner money invested in a business. It is linked to liquidity (Henning & Jordaan, 2016). Conditions are linked to the coverage ratios whereas collateral is related to efficiency ratios. The Capital, collateral and conditions C's are the main strengths because they tell about the firm's ability to repay loans. These are the factors which show at a glance the assets, liabilities and the repayment capacity of a firm. When the firm has more liabilities than assets then a loan is declined. ✓

References

Ata, A., Korpi, M., Ugurlu, M., & Sahin, F. (2015). Factors influencing the credit rationing on the commercial lending process. *Journal of Business Economics and Finance*, 4(2).

Henning, J., & Jordaan, H. (2016). Determinants of financial sustainability for farm credit applications—A Delphi study. *Sustainability*, 8(1), 77.

Karimi, J., & Walter, Z. (2016). Corporate entrepreneurship, disruptive business model innovation adoption, and its performance: The case of the newspaper industry. *Long Range Planning*, 49(3), 342-360.



Appendix A: Expected case

Profitability							
	2015	2016	2017	2018	2019F	2020F	2021F
ROA	0.1088	0.1164	0.1254	0.1491	0.1330	0.1451	0.1540
OPM	0.1812	0.1652	0.1471	0.1461	0.1825	0.1843	0.1853
PM	0.0958	0.0899	0.0823	0.0839	0.0980	0.1018	0.1046
Liquidity							
	2015	2016	2017	2018	2019F	2020F	2021F
Working Capital	\$ 156,545.08	\$ 186,154.47	\$ 237,519.56	\$ 316,920.16	\$ 457,143.27	\$ 644,590.13	\$ 866,534.62
Current Ratio	2.9092	3.1558	3.7918	4.7639	4.5165	5.9584	7.7435
Quick Ratio	2.1815	2.1990	2.5374	3.0631	2.7519	4.1997	5.8547
Solvency							
	2015	2016	2017	2018	2019F	2020F	2021F
Debt-to-Equity	1.4112	0.9599	0.6509	0.4445	1.2601	0.8209	0.5452
Debt-to-Asset	0.5853	0.4898	0.3943	0.3077	0.5575	0.4508	0.3528
Equity-to-Asset	0.4147	0.5102	0.6057	0.6923	0.4425	0.5492	0.6472
Coverage							
	2015	2016	2017	2018	2019F	2020F	2021F
Interest Coverage	8.39	10.8	14.74	23.42	9.53	12.64	17
Cash Coverage	11.06	14.11	18.8745	28.5274	12.28	15.77	20.64
Term Debt Coverage	2.4	2.91	3.62	5.73	3.53	4.14	4.94
Efficiency							
	2015	2016	2017	2018	2019F	2020F	2021F
Inventory Turnover	1.14	1.29	1.52	1.78	1.36	1.42	1.47
Days Sales in Inventory	2.31	2	1.9355	1.875	2	2.3077	2.5
total asset turnover	2.78	2.78	2.78	2.78	2.78	2.78	2.78
Du pont Analysis							
	2015	2016	2017	2018	2019F	2020F	2021F
Profit Margin	0.09	0.09	0.08	0.08	0.09	0.1	0.1

you did a good job references your tables next time it might be easier to include them in the text for the reader

NAME: Taylor Lewis

Explicitly stated opinion (5 points) 5

DuPont (10) 9

Profitability (10) 6

3 ratios industry benchmark graphed discussion of drivers 2 cases all years

Liquidity (10) 10

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Solvency/repayment (10) 5

3 ratios industry benchmark graphed discussion of drivers 2 cases all years

Efficiency (10) 5

3 ratios industry benchmark graphed discussion of drivers 2 cases all years

Conditions (5) 3

Character (5) 5

Linked to 5 Cs (10) 10

Additional information (5) 0

Readability (10) 10

Grammar (10) 7

Bonus: Sources with proper citations (5) 0

Total 83