

Southern Water Corp Executive Presentation

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Springboard Unit 5: Financial Analysis

September 22, 2022

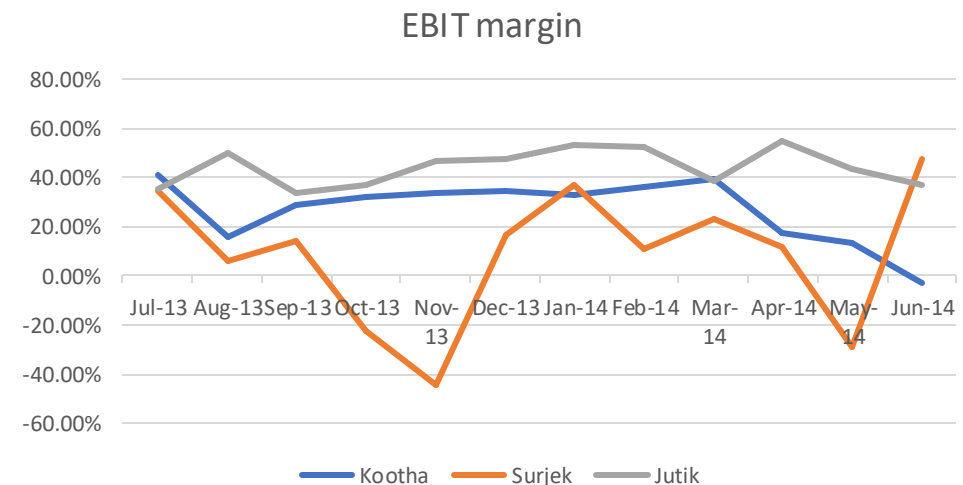
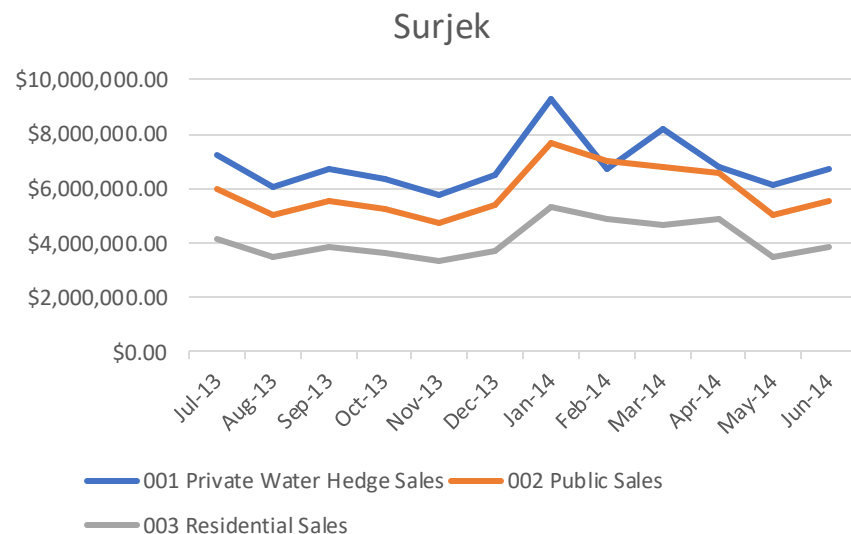
Executive Summary

Promote Jutik and improve Surjek's EBIT Margin

Southern Water Corp sells fresh water to 3 customer segments: Residential, Public, and Private with 3 water plants: Jutik, Surjek, and Kootha. The water demand is rising and we need to lower cost of production.

The most profitable of the 3 customer segments is Jutik because is most cost effective for Southern Water Corp due to its high EBIT margin at \$72 M.

Surjek provided close to 50% of Revenue sales between July 2013-June 2014 at \$202M. Therefore, Surjek needs to improve its EBIT margin.

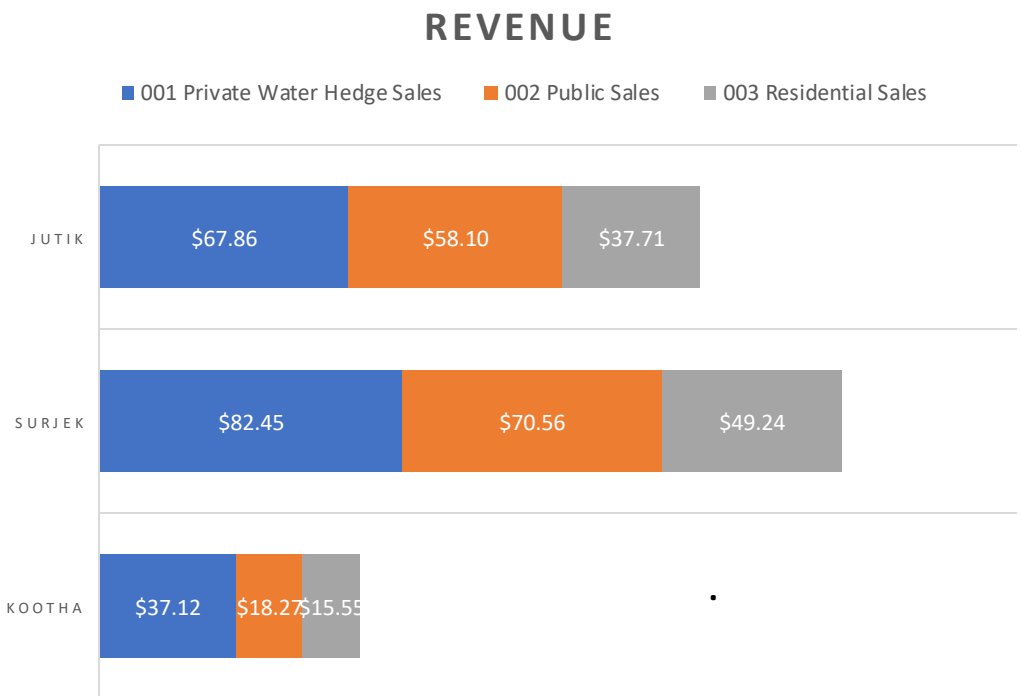
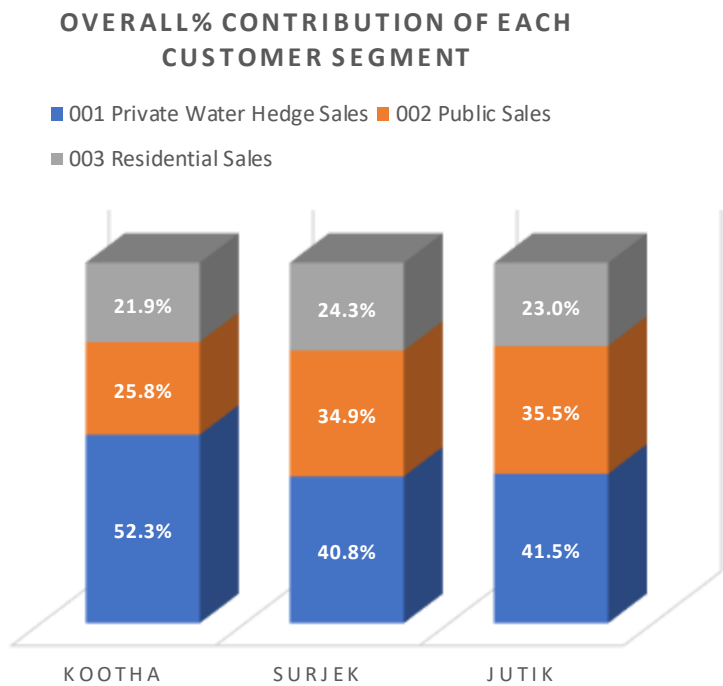


Customer Segments

Segmentation of the revenues by unit, reveals that of the three (3) customer segments, Surjek is the most popular, followed by Jutik (\$163M) and lastly Kootha Sales (\$70M).

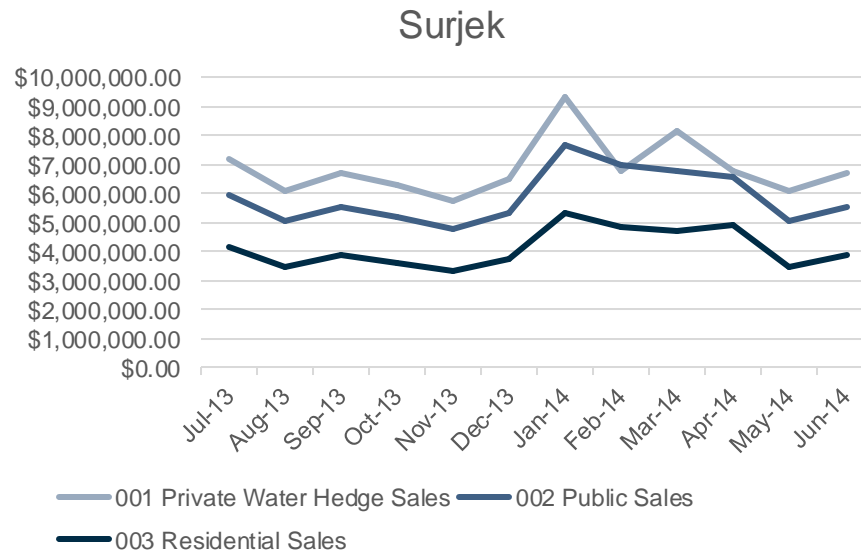
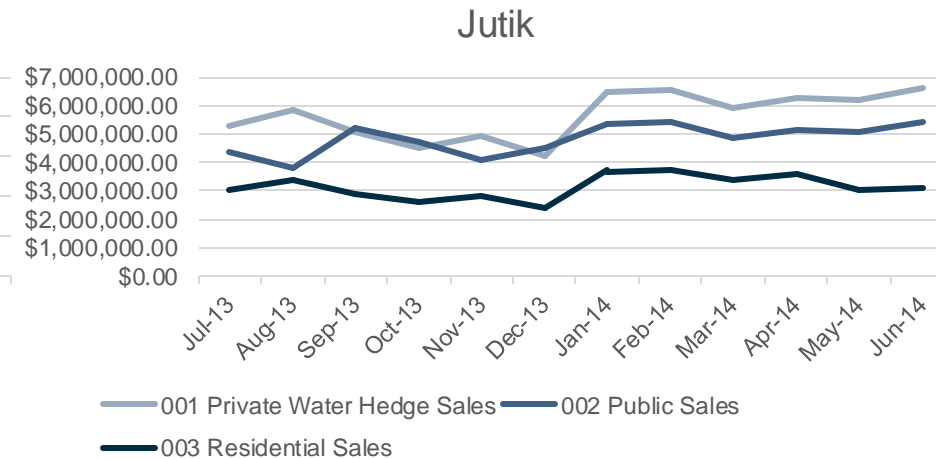
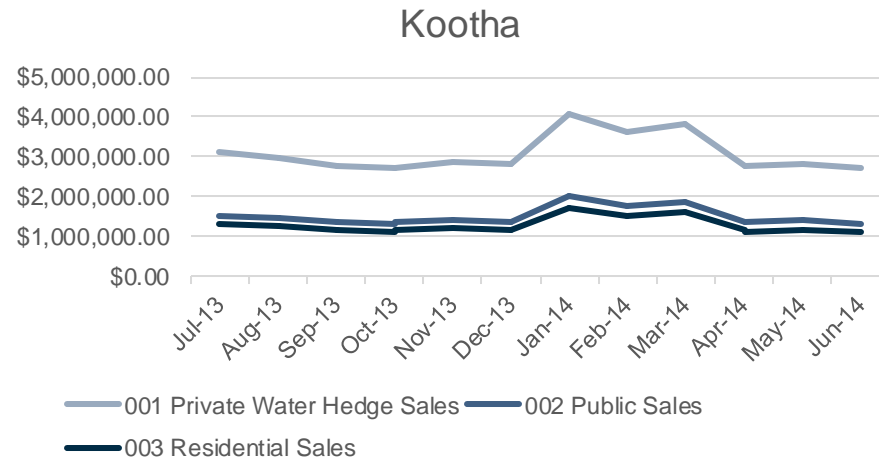
Surjek shows the highest revenue and Kootha shows the lowest revenue among three units.

Private water hedge sales portion is the biggest in all three units. Private water hedge sales revenue of Surjek is higher than Kootha’s total revenue.



Profitability

Of the (\$436)¹ in Revenue Sales over the July-2013 to June-2014 Period, Surjek provides close to 50% of Sales Volumes (\$202), with Jutik (\$ 163 M) and Kootha (\$70) providing the remaining.

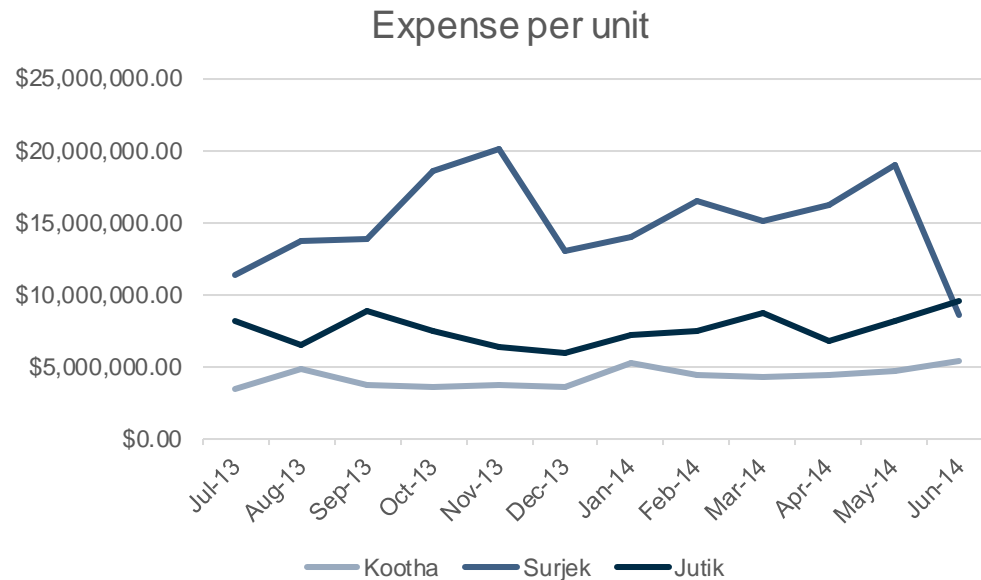


- Revenue of Surjek and Jutik is increasing and revenue of Kootha is decreasing.
- Private Water Hedge Sales shows dramatic increase on Jan for all three units.

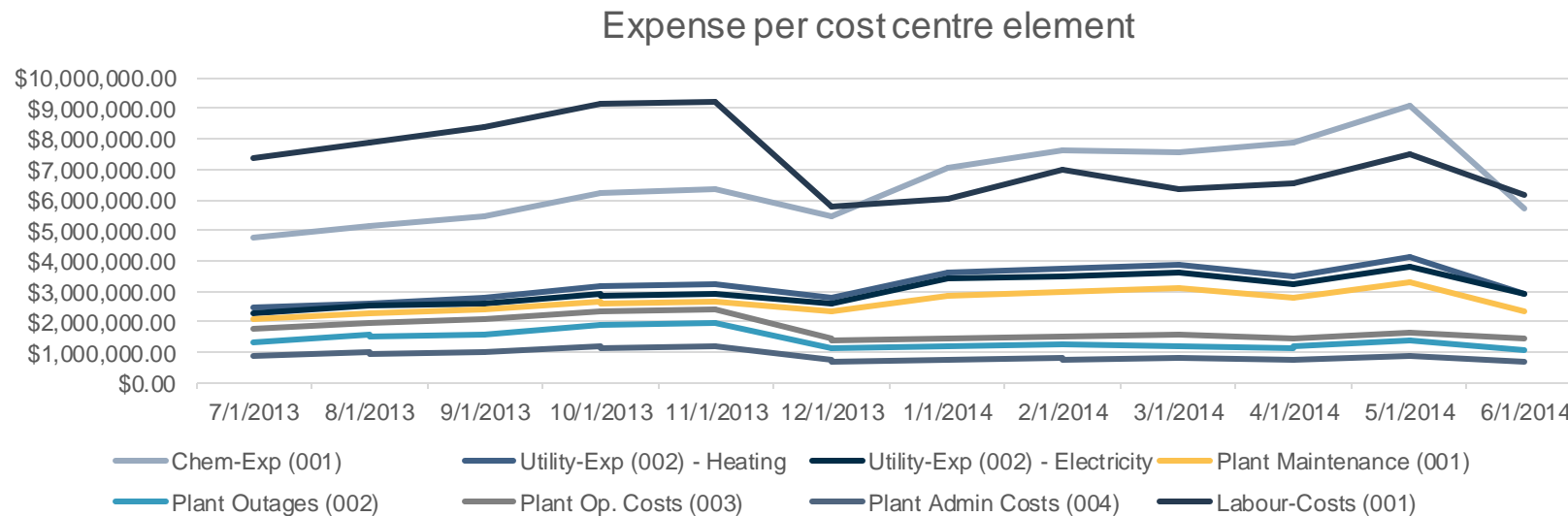
Note: This refers to the Total Sales for all 3 Units (Kootha, Surjek and Jutik)

Trends and Patterns

Targeted Expense Analysis reveals an interesting trend; Overall Costs sharply increase(?) from December, with chemical expenditure, contributing \$ 161 (25%) towards the overall cost-base.



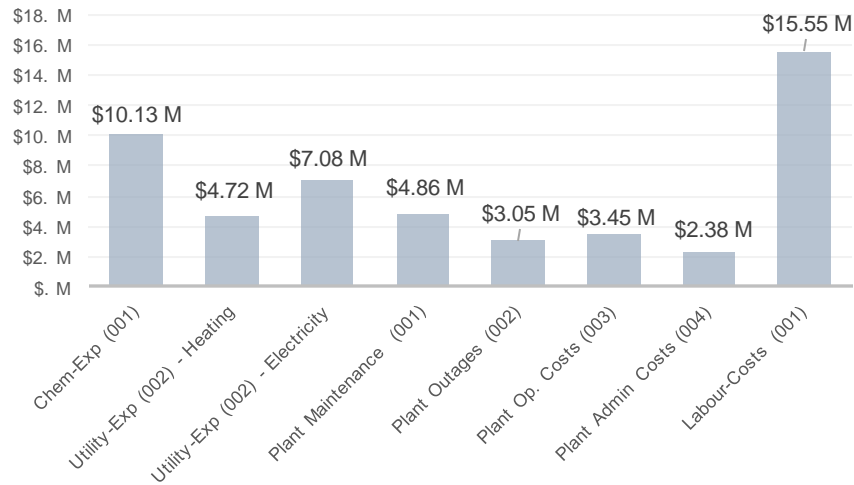
- Surjek shows highest expense among three units.
- Expense of Surjek dramatically decreases on Jun-14.
- Expense of all cost centre elements are decreasing recently.



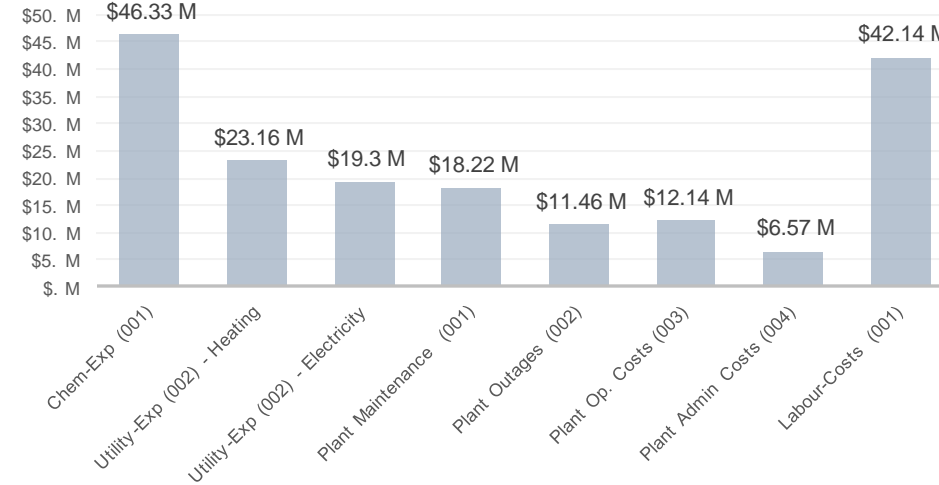
Expenses by Customer Segments

Further analysis singles-out Surjek with \$179M (56%) worth of expenses, contrasted to a much lower spend from Kootha (\$51 M) and Jutik (\$ 90M), largely due to lower Chemical and Labour Expenditure.

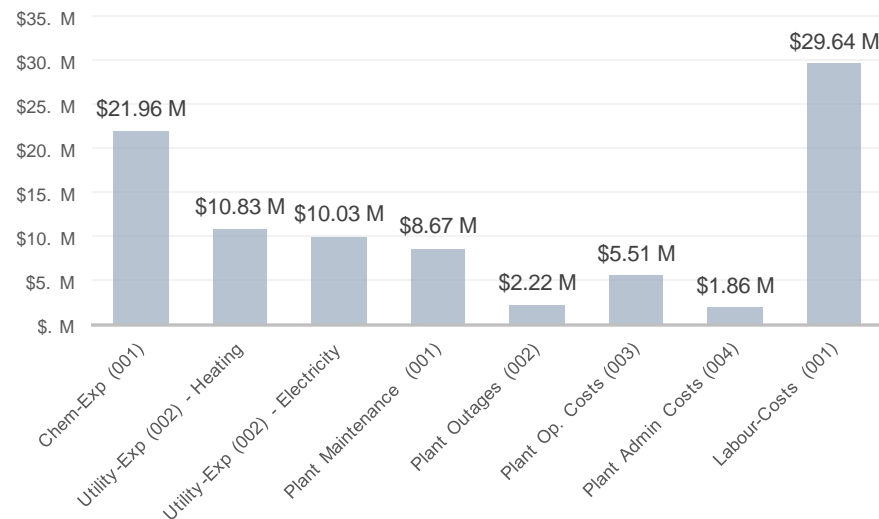
Kootha Expenses (2013- July - 2014 June)



Surjek Expenses (2013- July - 2014 June)



Jutik Expenses (2013- July - 2014 June)

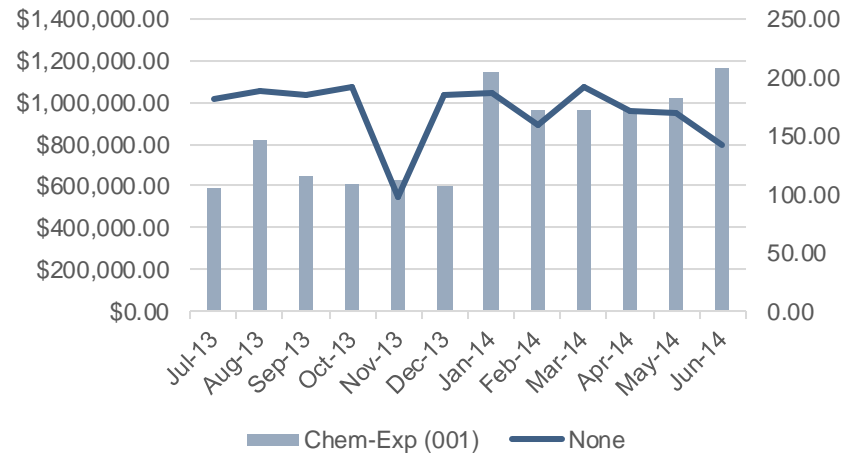


- Chemical and labour costs are the major costs overall.
- Only Surjek has higher costs in Chemical than labour. Surjek is over-producing.
- Plant admin costs is the lowest costs for all 3 units.

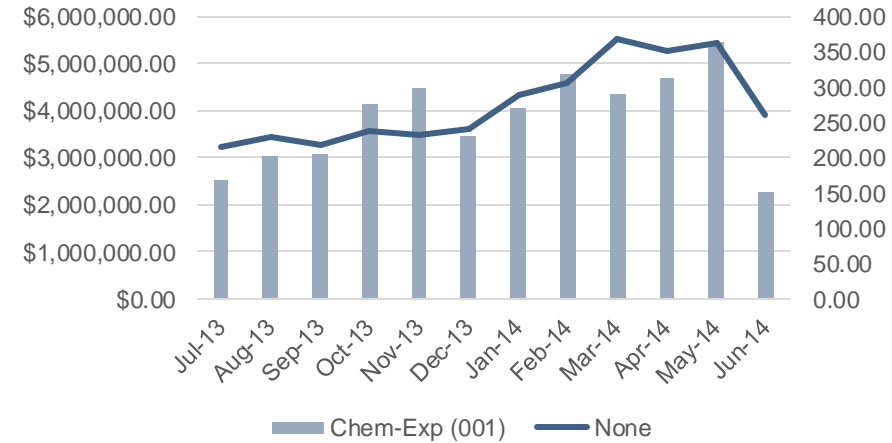
Drilling Down the Cost

Drilling-down to the cost-element level, reveals an indicative relationship between water production and chemical expenditure with this being particularly pronounced for the Surjek Unit which coincidentally has the highest rate of water production.

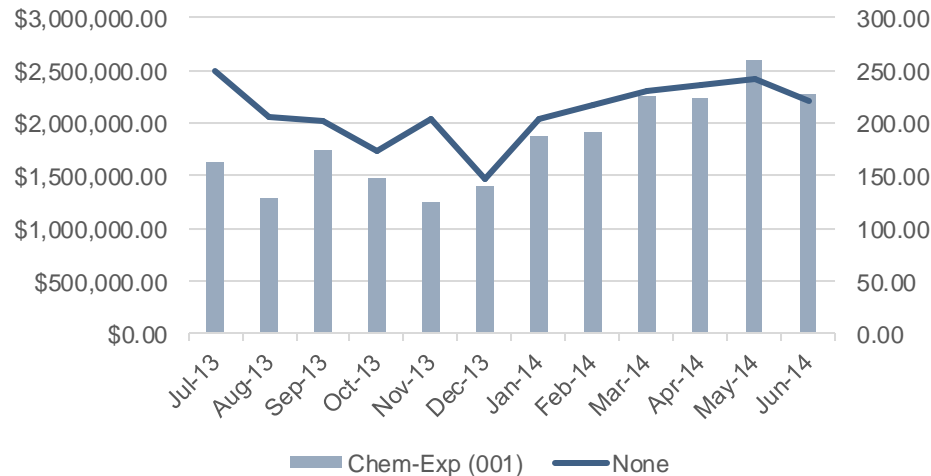
Kootha Chemical Expenditure vs. Water Production Actuals



Surjek Chemical Expenditure vs. Water Production Actuals



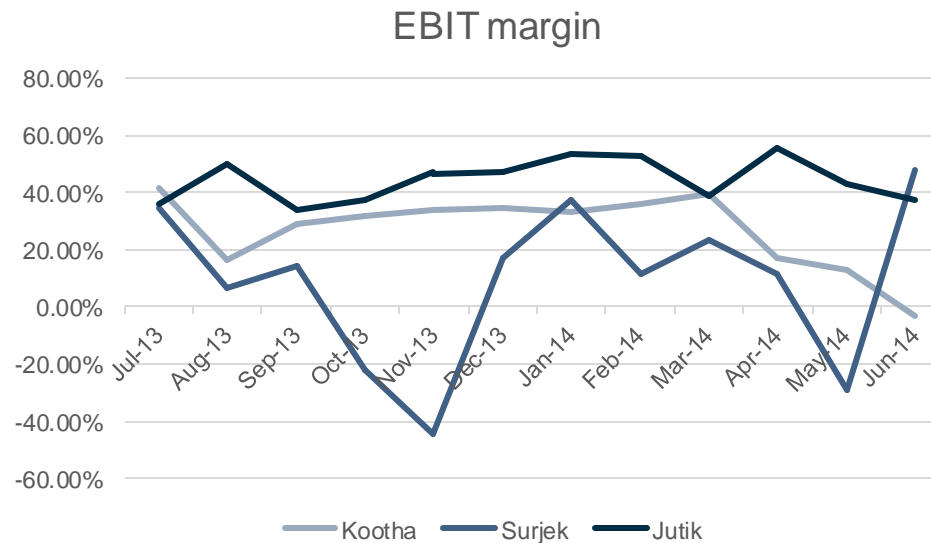
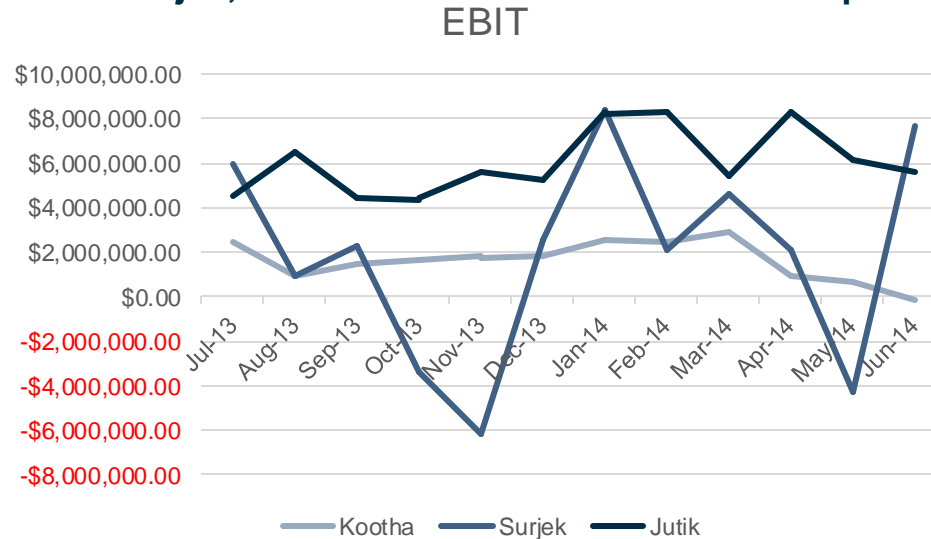
Jutik Chemical Expenditure vs. Water Production Actuals



- Surjek and Jutik shows similar trend on chemical expenditure and water production.
- For Kootha, water production dropped on Nov-13.
- For Kootha, last 6 months show higher chemical costs due to the increase on soft water contribution.

Conclusion of Analysis

Concluding our analysis, Jutik has the highest overall EBIT contributions (\$72M), followed by Surjek (\$22M), and lastly Kootha (\$19M). However, from an EBIT Margin (%) perspective, Kootha has a higher margin than that of Surjek, indicative of a lower revenue-to-expense ratio.¹



- Jutik has lower revenue than Surjek, but Jutik has higher EBIT margin, indicating Jutik is more cost effective.
- Surjek shows the most fluctuating graph.
- Surjek over the Oct, Nov and May periods, expenses were far higher than revenues which contributed to this lower revenue-to-expense ratio.
- Surjek has the highest revenue, so it's important to improve EBIT margin.
- Kootha EBIT margin is decreasing significantly lately.

Costs

The cost of the various plants vary due to the type of desalinated water they produce. As such the Operational cost will vary due to the production and chemical costs associated with the water type. Southern Water Corp must make some changes to increase revenue but decrease production costs.





Recap and Recommendations

Jutik is more cost effective for Southern Water Corp than Surjek and Kootha due to its low EBIT margin.

Promote Jutik more and continue to see Revenue Sales increase while decreasing unsustainable rise in overall cost.

Surjek provides high revenue sales and needs to decrease its EBIT Margin for continued high performance.