

Case study on Financial Risk Rating

After arriving at the Industry, Market and Management risks conclusions Ramchandra conducted a full financial analysis of the audited financial statements submitted by Dry Supply. Accounts were audited by registered auditor. As needed, the company also provided items such as an aged listing of accounts receivable which revealed that 20% of the receivables are concentrated in MY Shop, the oldest dry cleaner in the town. Ramchandra also received the details on product mix behind the sales results.

To support risk rating conclusions, the following additional excerpts from his analysis are provided below.

The fixed assets for Dry Supply are summarized below. The company does not own its land or building. Fixed assets are composed primarily of company vehicles and equipment used to test products. With fixed assets heavily depreciated, the request for new equipment is better understood.

Also, with the fixed assets depreciated approximately two-thirds, a business banker will want to determine the future fixed asset needs and if the pending loan request includes all needs over the next year or so. In 2017, Dry Supply added a delivery truck at a cost of Rs.15 lakhs. This purchase raises the question of whether the company might need other vehicle replacements in the future.

In lakh						
	2015		2016		2017	
Furniture and fixtures	Rs.76	31.3%	Rs.75	28.8%	Rs.78	28.9%
Leasehold improvements	1	0.4%	1	0.4%	0	0.0%
Transportation equipment	53	21.8%	70	26.9%	85	31.5%
Gross fixed assets	130	53.5%	146	56.2%	163	60.4%
Less: Accum. depreciation	85	35.0%	97	37.3%	110	40.7%
Net fixed assets	45	18.5%	49	18.8%	53	19.6%
Percent depreciated		65.0%		66.0%		67.0%

Ramchandra has found that Dry Supply had taken loans from other banks in the past but there is no outstanding presently.

Instructions

Using Ramchandra's financial review findings, what are some initial risk rating conclusions can you make for each of the following areas:

- Earnings and operating cash flow trends?
- Asset and liability values?
- Financial flexibility and debt capacity?
- Financial reporting?