Financial Analysis for Southern Water Corp

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Context

- Souther Water Corp. sells fresh water for three customer segments: Residential, Public, and Private.
- Faced with continued demand, Southern Water Corp. needed to maximize the availability of its three desalination plants resulting in increased revenue.
- While the increase in revenue is fantastic, Southern Water Corp does not want an unsustainable rise in costs.
- With this context in mind, management wants to understand the other side of the cost equation. With increased revenues, has Southern Water Corp seen production costs increase significantly?

With an average profit margin of $73M (63%), Jutik generates an attractive balance of strong cashflow in the amount of $164M (34%) with expenditures of $91M(28%).

Revenues:

- Of the $437M in Revenue Sales, Surjek contributes the majority of cashflow at $202M (46%), followed by Jutik ($164M) and Kootha providing the remaining $71M, with all three units diversifying across Private ($187M), Public ($147M) and Residential Sales ($103).

Expenses:

- Surjek brings in the majority of expenses at $179M (56%), contrasted to a much lower spend from Kootha ($51 M) and Jutik ($91 M).

Profitability:

- Jutik has the highest overall EBIT contributions ($73M), followed by Surjek ($23M) , and lastly Kootha ($20M). However, from an EBIT Margin (%) perspective, Kootha has a higher margin than that of Surjek, indicative of a lower revenue-to-expense ratio.

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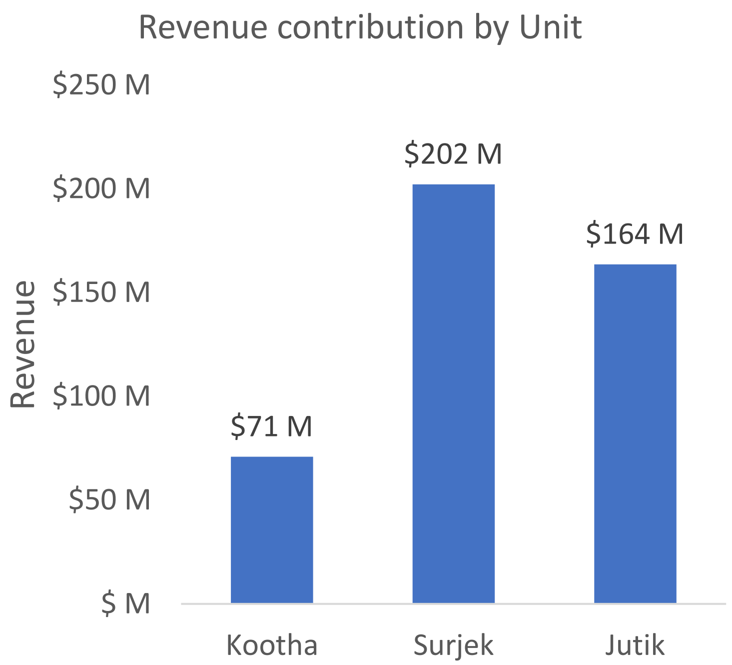
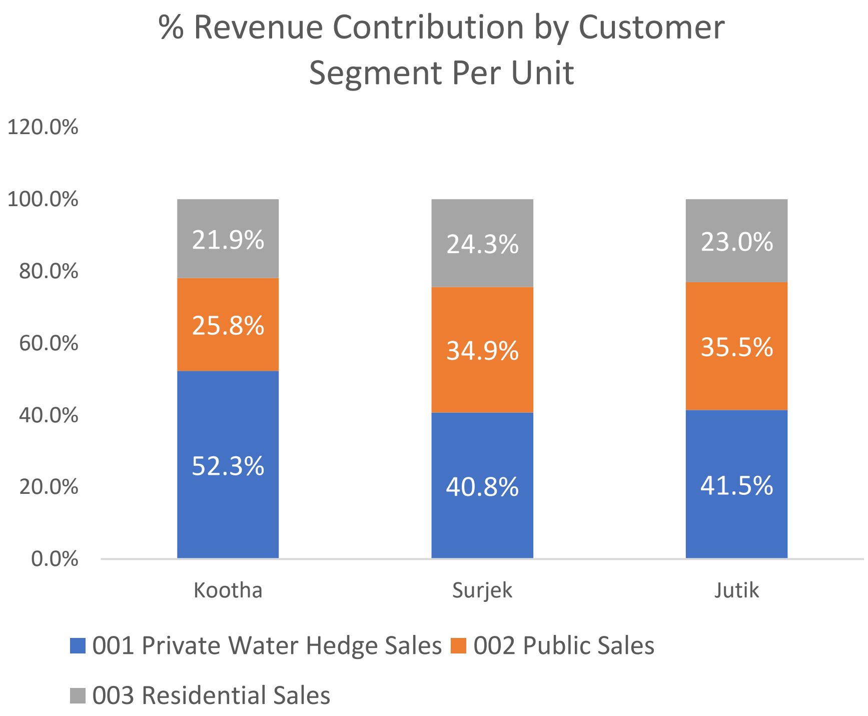
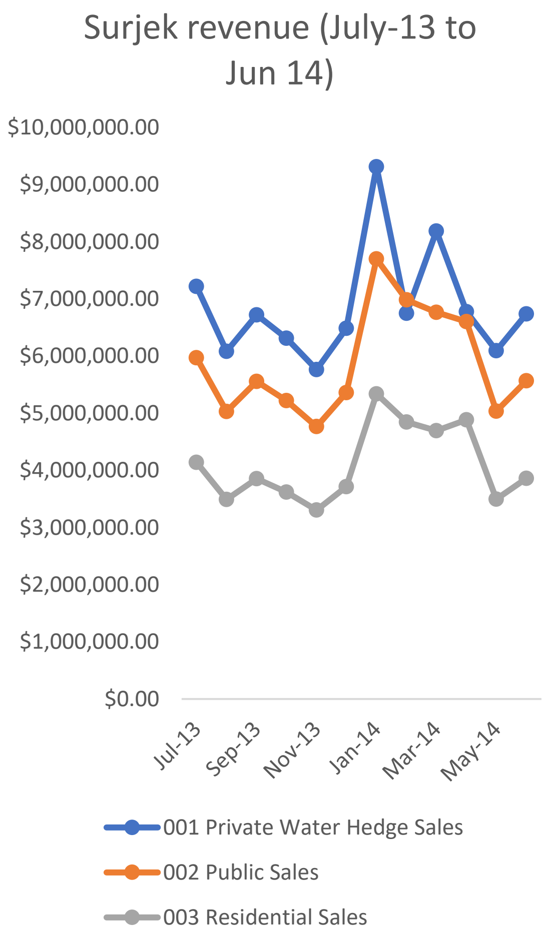
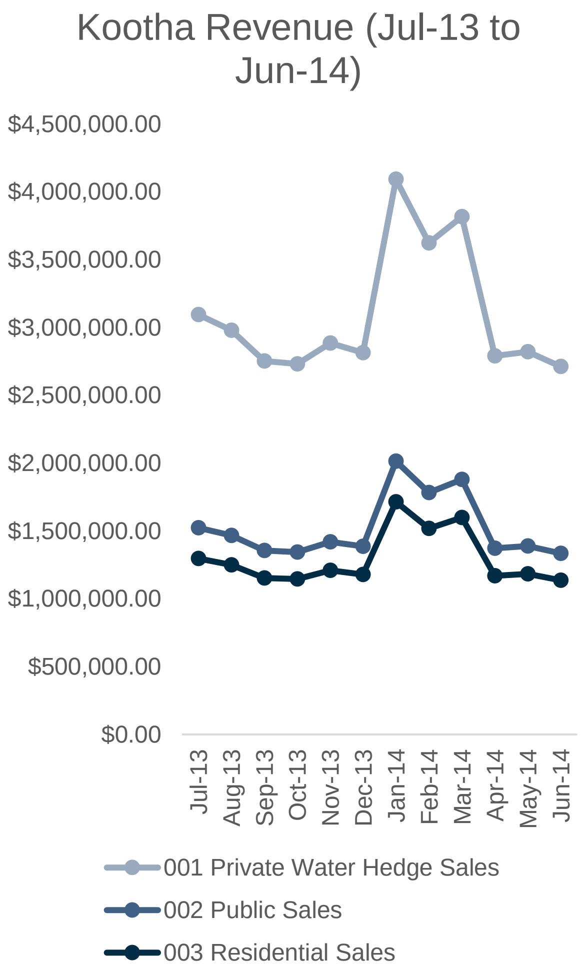
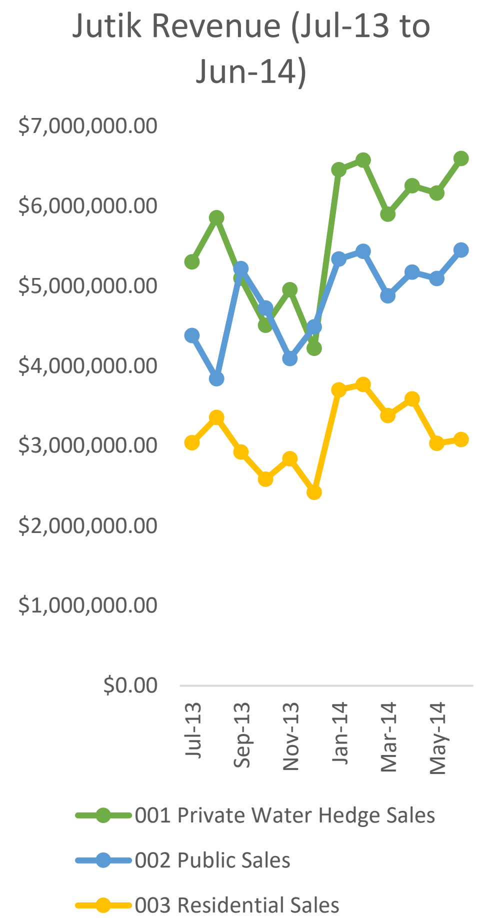




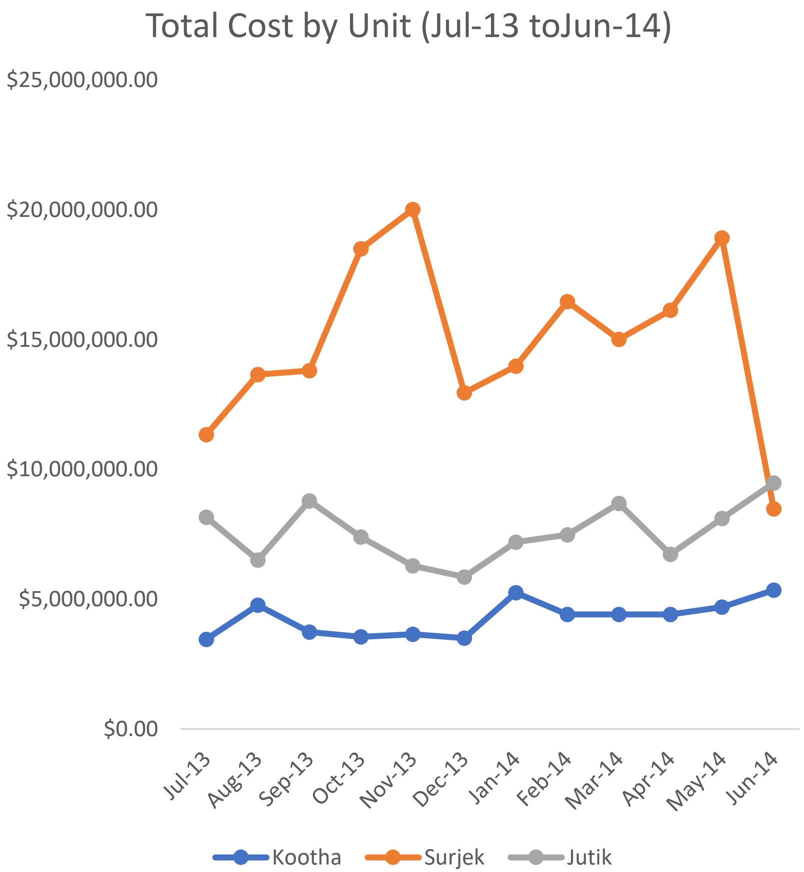
Of the ($437M)[1] in Revenue Sales over the July-2013 to June-2014 Period, Surjek provides close to 50% of Sales Volumes ($202M), with Jutik ($ 164M) and Kootha ($71M) providing the remaining volume.

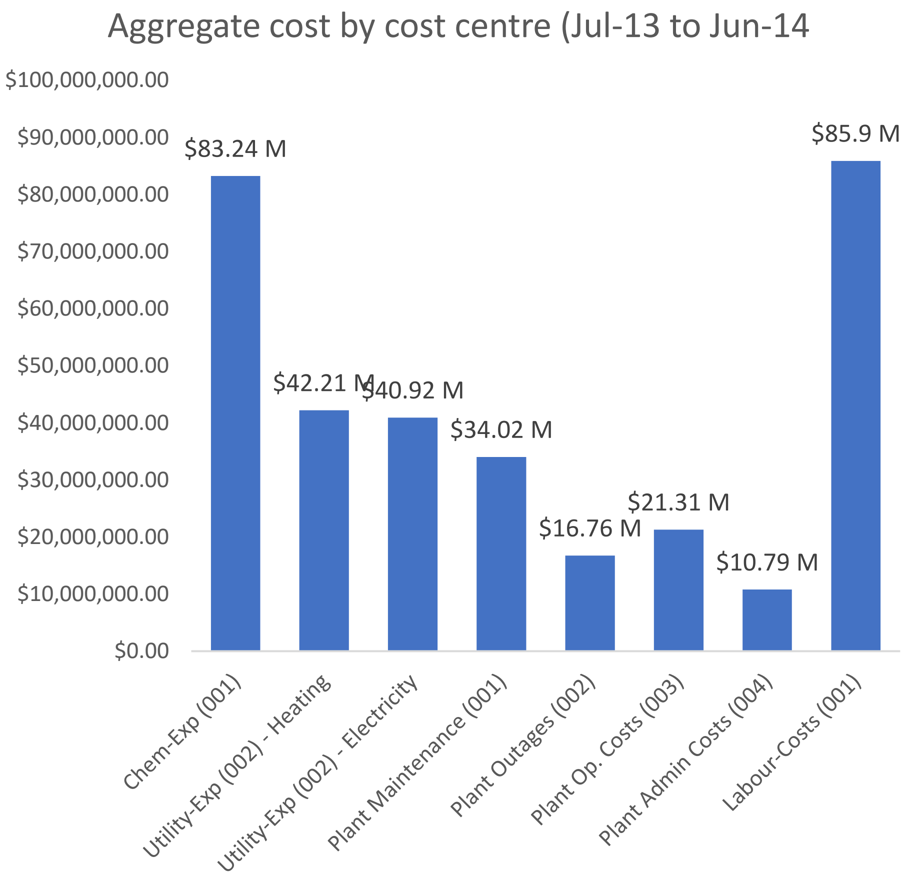




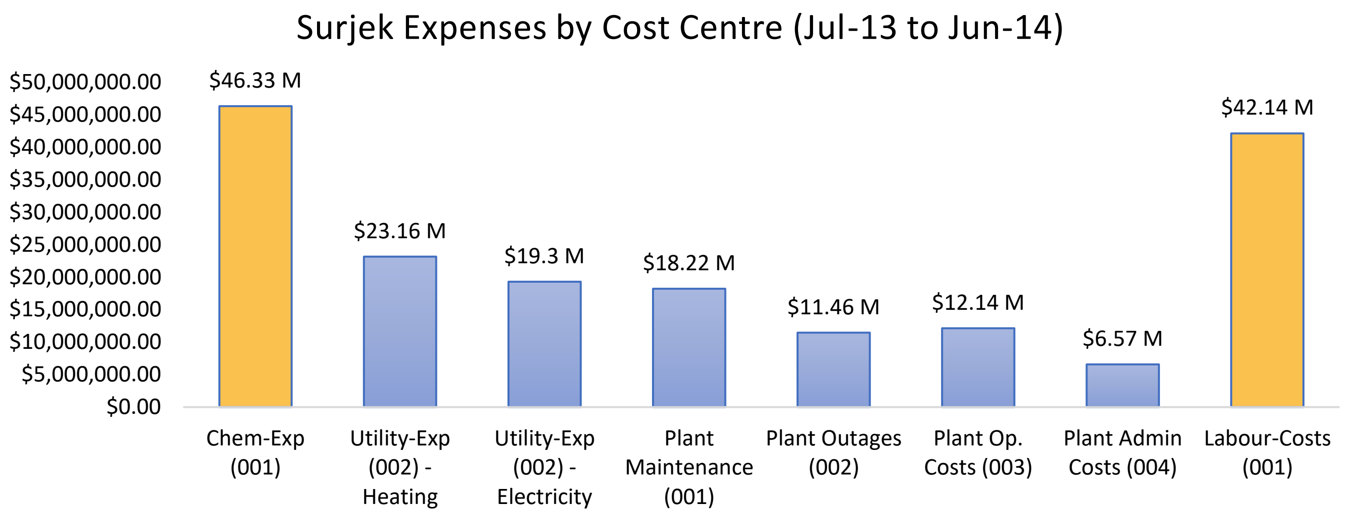


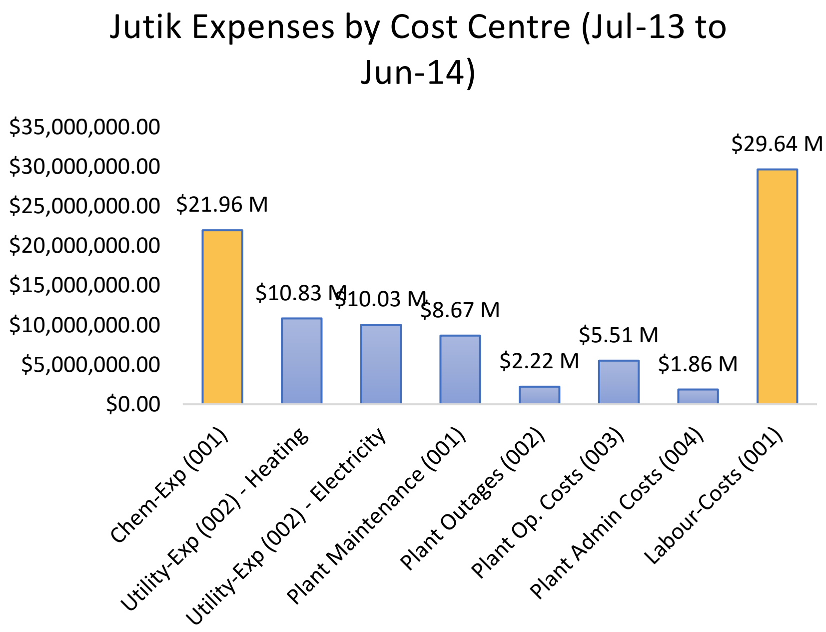
Targeted Expense Analysis reveals an interesting trend; Overall Costs sharply increase from December, with Labour Costs, contributing $87 M (27%) towards the overall cost-base.

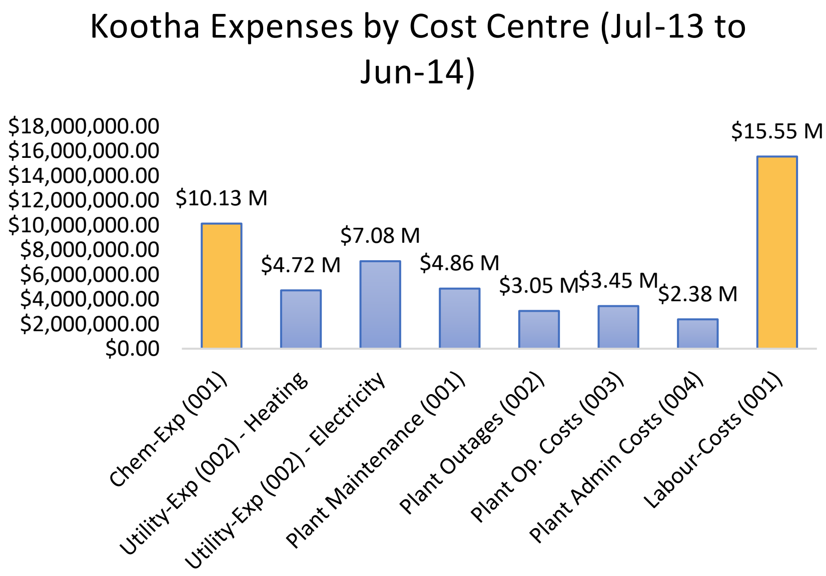




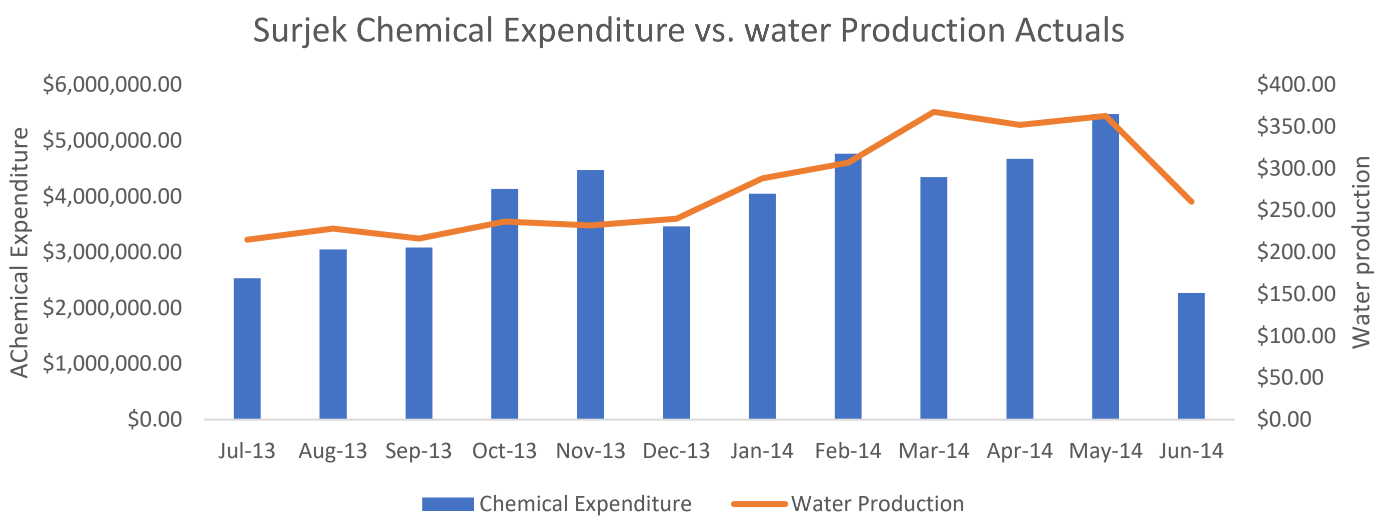
Further analysis singles-out Surjek with $179 M (56%) worth of expenses, contrasted to a much lower spend from Kootha ($51 M) and Jutik ($91 M), largely due to lower Chemical and Labour Expenditure.

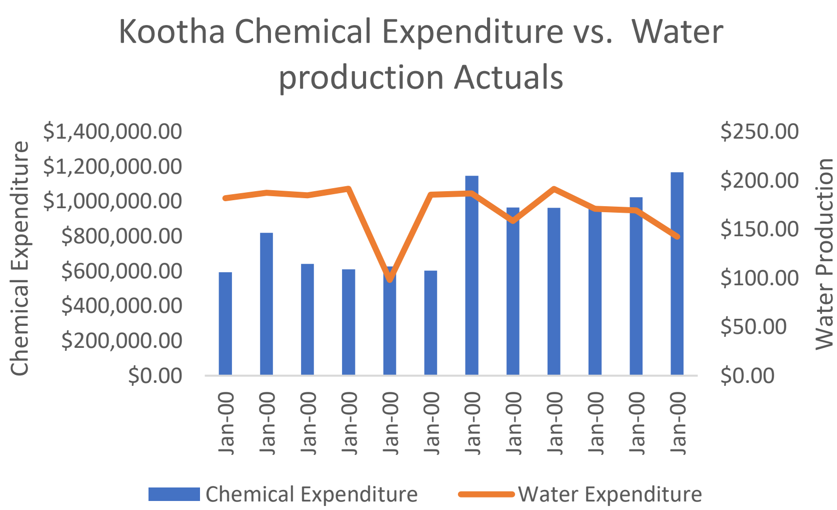


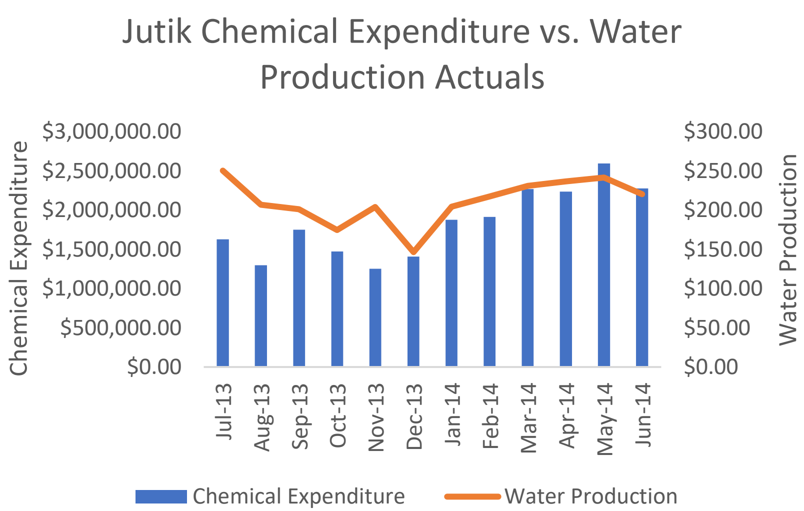




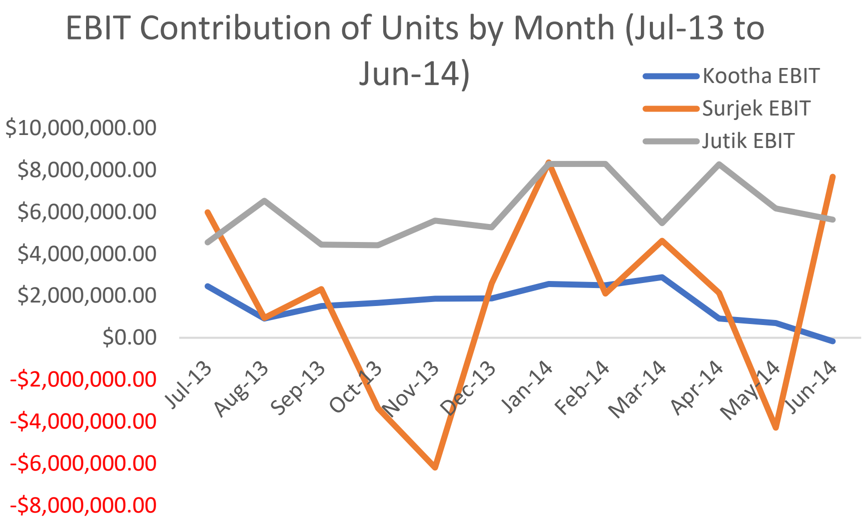
Drilling-down to the cost-element level reveals an indicative relationship between water production and chemical expenditure with this being particularly pronounced for the Surjek Unit which coincidentally has the highest rate of water production.

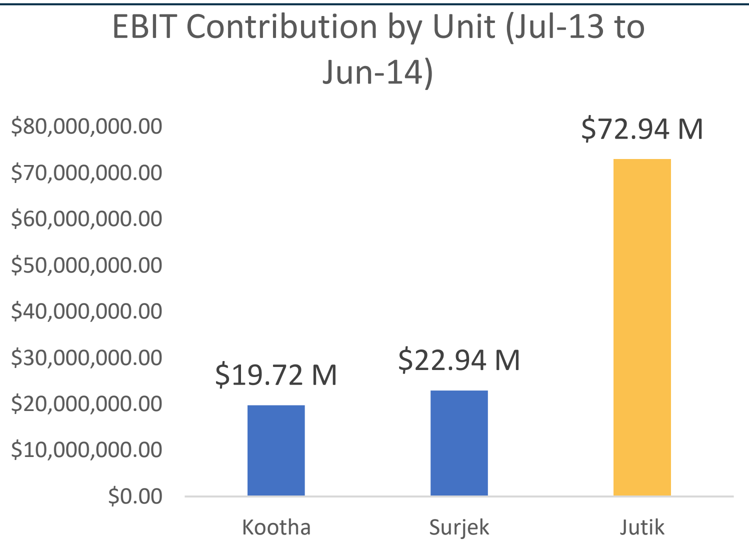


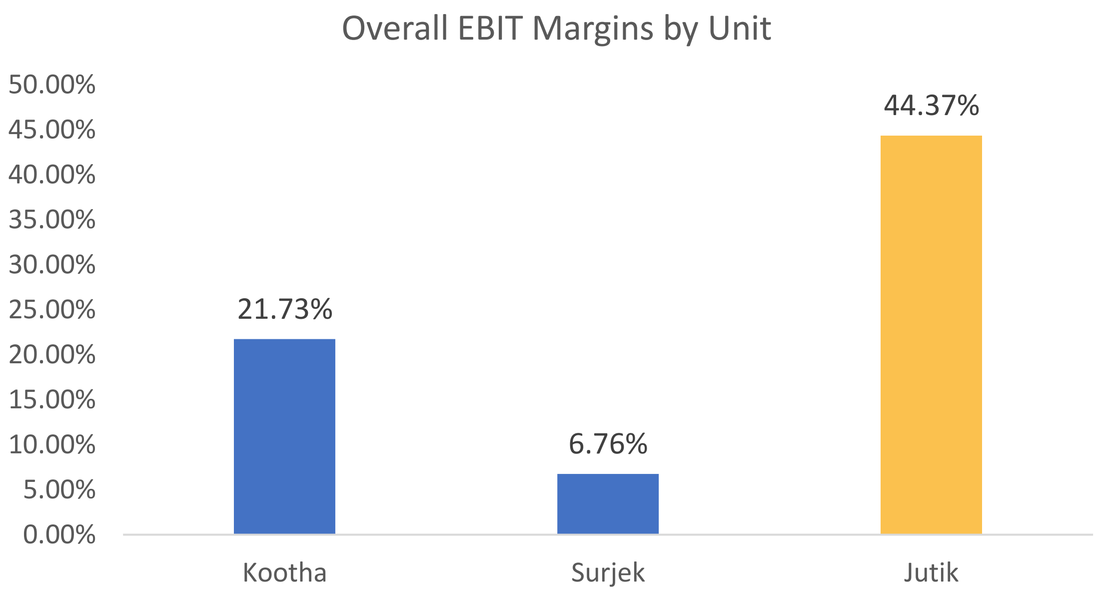




Concluding our analysis, Jutik has the highest overall EBIT contributions ($73M), followed by Surjek ($23M) , and lastly Kootha ($20M). However, from an EBIT Margin (%) perspective, Kootha has a higher margin than that of Surjek, indicative of a lower revenue-to-expense ratio.[1]







Note:[1] We can clearly see for Surjek over the October, November and May Periods – expenses were far higher than revenues which contributed to this lower revenue-to-expense ratio.