**Preliminary Report: Financial Analysis and Risk Assessment of Green Solutions Manufacturing Ltd.**

**Executive Summary**

This report provides an analysis of Green Solutions Manufacturing Ltd's financial position and identifies key financial risks based on 31st December 2022 and 2023 financial statements. Green Solutions Manufacturing Ltd is a leading multinational manufacturer specialising in eco-friendly sustainable drinkware with a particular focus on sustainable practices. It is headquartered in the UK, with manufacturing facilities in three countries and a client base of over 50 million customers with over £50m annual revenue. The company has heavily invested in sustainable, eco-friendly production, updating machinery and processes, and leading R&D in sustainability. Capital expenditures on these initiatives have surged by 150% since 2022, funded by internal resources and borrowing. They are now seeking additional credit to further advance their sustainability initiatives.

**Financial Analysis**

**Revenue and Profitability**

* **Total Revenue:** Increased by approximately 71% over the year, indicating strong market demand and successful business strategies.
* **EBITDA (earnings before interest, taxes, depreciation, and amortisation):** Significant increase driven by improved gross margins and revenue growth. This has resulted in a substantial rise in net profit before tax.
* **Net Interest Expense:** Almost halved due to a drop-in interest expense and an increase in interest income, positively impacting net profitability.
* **Net Profit Before Tax:** Increased in line with the rise in EBITDA, reflecting overall financial health and profitability.

**Assets and Liabilities**

* **Total Assets:** Balance sheet expanded ~19% YoY basis, and is primarily dominated by PPE (~50%) which is in line with manufacturer model.
* **Total Tangible Assets:** Similarly, a slight increase, maintaining the company's asset base.
* **Inventory:** A sizable 40% increase in inventory during 2023 aligns with the revenue growth, ensuring adequate stock levels to meet demand.
* **Cash and Cash Equivalents:** Cash reserves reduced YoY primarily to support capital expenditure on investments & debt repayments. This needs monitoring to ensure liquidity.
* **Total Liabilities:** Slight increase, manageable within the context of overall growth.
* **Net Worth:** Increased by approximately 33%, reflecting improved shareholder value.
* **Tangible Net Worth:** Similarly increased by around 34%, indicating a solid financial foundation.

**Cash Flow**

* **Operating Cash Flow:** Almost doubled, demonstrating strong cash generation from core activities.
* **Capital Expenditure:** Increased due to investments in property and equipment, supporting long-term growth.
* **Free Cash Flow:** Increased due to higher operating cash flows, partially offset by increased capital expenditure, indicating healthy financial management.

**Key Financial Ratios**

**Profitability Ratios**

* **EBITDA Margin:** Almost doubled, indicating enhanced profitability.
* **Operating Margin:** Similarly doubled, reflecting improved operational efficiency.

**Leverage and Liquidity Ratios**

* **Interest Coverage Ratio:** Significant improvement due to increased EBITDA and reduced net interest payments, enhancing financial stability.
* **Current Asset Ratio:** Slightly dropped, suggesting a need to monitor liquidity closely.
* **Leverage Metric:** Decreased by approximately 6.6 (84%), mainly due to increased EBITDA, indicating reduced financial risk.
* **Net Leverage:** Increased by approximately 3.2 (62%), driven by the leverage metric improvement but offset by reduced cash balance.
* **Cash Flow/ Capital Expenditure Ratio:** Changed by 0.4 due to higher capital expenditure relative to cash flows from operating activities, suggesting cautious investment strategies.

**Risk Assessment**

**Key Financial Risks**

1. **Liquidity Risk:** The slight drop in cash and cash equivalents and current asset ratio requires close monitoring to ensure the company can meet its short-term obligations.
2. **Capital Expenditure Risk:** While increased capital expenditure supports growth, it also strains free cash flow. Ensuring a balance between investment and liquidity is crucial.
3. **Leverage Risk:** Although the leverage metric has improved significantly, the increase in net leverage due to a decrease in cash balance poses a potential risk.
4. **Inventory Risk:** The substantial increase in inventory must be managed efficiently to prevent overstocking and related costs.

**Actionable Insights**

1. **Enhance Liquidity Management:** Implement strategies to improve cash reserves and optimize current asset management.
2. **Monitor Capital Expenditure:** Ensure that capital investments are aligned with cash flow capabilities to maintain financial stability.
3. **Leverage Optimization:** Continue to focus on reducing leverage by increasing profitability and maintaining a healthy cash balance.
4. **Efficient Inventory Management:** Streamline inventory processes to align with sales growth and minimize holding costs.

**Conclusion**

Green Solutions Manufacturing Ltd demonstrates strong financial health with significant revenue growth, improved profitability, and a solid asset base. However, attention to liquidity, capital expenditure, and leverage management is essential to mitigate potential risks. The company is well-positioned for continued success, provided these financial strategies are effectively implemented.

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