



# Financial Analysis Report | EcoLeather Recyclers Pvt. Ltd.

## Company Overview

EcoLeather Recyclers Pvt. Ltd. operates in the leather recycling industry in India, focusing on collecting, processing, and repurposing leather from old coats and garments. The company sources discarded leather from individuals, factories, and clothing retailers, transforming it into new products such as handbags, shoes, and furniture upholstery. EcoLeather Recyclers works closely with local artisans and follows sustainable practices to reduce the environmental impact of leather waste.

## Key Challenges Faced in 2023

- Supply Chain Disruptions:** Due to fluctuating leather collection rates and transportation strikes, EcoLeather Recyclers faced significant supply chain disruptions. This led to delays in production and a reduction in raw material availability, forcing the company to scale back on production capacity.
- Regulatory Hurdles:** New environmental regulations introduced in late 2023 required the company to upgrade its processing facilities to meet stricter standards for waste management and emissions. This led to unexpected capital expenditures and impacted the company's cash flow.

## Management Discussion and Analysis (MD&A) Summary

### Profitability and Revenue Trends

Despite the challenges, EcoLeather Recyclers managed to maintain steady revenue through the sale of recycled leather products. However, increased costs due to regulatory compliance and supply chain disruptions led to a drop in net income.

### Market Competition and Positioning

EcoLeather Recyclers positions itself as a leader in sustainable leather recycling, leveraging close collaborations with local artisans and sustainable practices to differentiate from competitors.

### Strategic Initiatives and Investments

In response to regulatory changes, the company invested heavily in new recycling equipment to meet stricter standards. These investments are expected to enhance operational efficiency and compliance in the long term.

### Future Outlook and Risks

The company anticipates continued regulatory pressure and potential supply chain volatility. However, strategic investments in technology and processes are expected to mitigate these risks and support sustainable growth.

## Balance Sheet Retrieval

Category	Amount (INR)
Cash and Cash Equivalents	₹1,200,000
Accounts Receivable	₹500,000

Inventory	₹2,500,000
Property and Equipment	₹3,000,000
Accounts Payable	₹900,000
Bank Loans	₹1,500,000
Total Liabilities	₹2,550,000
Owner's Equity	₹4,650,000

## Balance Sheet Trend Analysis

Category	Beginning of Year (Amount)	End of Year (Amount)	Change (Amount)	Percentage Change
Cash and Cash Equivalents	₹1,700,000	₹1,200,000	₹-500,000	-29.41%
Accounts Receivable	₹600,000	₹500,000	₹-100,000	-16.67%
Inventory	₹2,200,000	₹2,500,000	₹300,000	13.64%
Total Assets	₹7,500,000	₹7,200,000	₹-300,000	-4.00%
Accounts Payable	₹1,000,000	₹900,000	₹-100,000	-10.00%
Bank Loans	₹1,200,000	₹1,500,000	₹300,000	25.00%
Total Liabilities	₹2,500,000	₹2,550,000	₹50,000	2.00%
Owner's Equity	₹5,000,000	₹4,650,000	₹-350,000	-7.00%

## Cash Flow Statement Retrieval

Activity	Amount (INR)
Net Cash from Operating Activities	₹1,200,000
Net Cash Used in Investing Activities	₹-1,400,000
Net Cash Used in Financing Activities	₹-300,000
Net Decrease in Cash	₹-500,000
Cash at Beginning of Year	₹1,700,000
Cash at End of Year	₹1,200,000

## Cash Flow Trend Analysis

Cash Flow Category	Beginning of Year	End of Year	Change	Notes on Change
Net Cash from Operating Activities	₹1,000,000	₹1,200,000	₹200,000	Improved operational efficiency despite challenges.
Net Cash Used in Investing Activities	₹-500,000	₹-1,400,000	₹-900,000	Heavy investments in new equipment and regulatory upgrades.
Net Cash Used in Financing Activities	₹-200,000	₹-300,000	₹-100,000	Increased loan repayments and interest expenses.

Net Increase/Decrease in Cash	₹300,000	₹-500,000	₹-800,000	Overall decrease due to significant investing activities.
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## Income Statement Retrieval

Category	Amount (INR)
Total Revenue	₹7,700,000
Total Expenses	₹6,850,000
Net Income (before taxes)	₹850,000

## Income Statement Trend Analysis

Income Statement Category	Beginning of Year	End of Year	Change	Percentage Change	Notes
Total Revenue	₹7,500,000	₹7,700,000	₹200,000	2.67%	Steady revenue despite supply chain issues.
Total Expenses	₹6,300,000	₹6,850,000	₹550,000	8.73%	Increased due to regulatory compliance costs.
Net Income	₹1,200,000	₹850,000	₹-350,000	-29.17%	Reduced profitability due to higher expenses.

## Ratio Analysis

Ratio Name	Formula	2023 Value
Return on Assets (ROA)	Net Income / Total Assets	₹850,000 / ₹7,200,000 = 11.81%
Return on Equity (ROE)	Net Income / Owner's Equity	₹850,000 / ₹4,650,000 = 18.28%
Gross Margin	(Revenue - COGS) / Revenue	Not Provided
Operating Profit Margin	Operating Income / Revenue	Not Provided
Current Ratio	Current Assets / Current Liabilities	Not Provided
Quick Ratio	(Cash + Receivables) / Current Liabilities	Not Provided
Debt-to-Equity Ratio	Total Liabilities / Owner's Equity	₹2,550,000 / ₹4,650,000 = 0.55
Total Liabilities/Total Assets	Total Liabilities / Total Assets	₹2,550,000 / ₹7,200,000 = 0.35
Asset Turnover	Revenue / Total Assets	₹7,700,000 / ₹7,200,000 = 1.07
Inventory Turnover	COGS / Inventory	Not Provided
Receivables Turnover	Revenue / Accounts Receivable	₹7,700,000 / ₹500,000 = 15.40

## Financial Health Assessment

### Profitability

EcoLeather Recyclers maintains decent profitability with a ROA of 11.81% and ROE of 18.28%. However, profitability has declined due to increased expenses.

## Liquidity

Details not provided in the available data. However, cash flow analysis indicates a net decrease in cash, suggesting potential liquidity concerns.

## Solvency

The debt-to-equity ratio is at a manageable level of 0.55, indicating the company is not overly leveraged.

## Efficiency

The company demonstrates efficient asset use with an asset turnover ratio of 1.07 and a high receivables turnover ratio of 15.40.

# Comprehensive Financial Review

EcoLeather Recyclers faced several challenges in 2023, including supply chain disruptions and regulatory hurdles, which impacted its financial performance. Despite these challenges, the company maintained steady revenue but saw a decline in net income due to increased expenses. The balance sheet shows a strong asset base but also increased liabilities due to new loans. Cash flow analysis reveals significant investments in new equipment, leading to a net decrease in cash. Overall, the company's profitability remains decent, solvency is stable, but liquidity may be a concern.

## EPS Forecast

Based on the financial analysis, it is expected that the company's Earnings Per Share (EPS) may experience slight improvement in the next reporting period. This expectation is based on anticipated benefits from strategic investments and improved operational efficiencies, although regulatory and supply chain risks remain.

## Follow-up Questions for Management

1. Can you provide more details on the measures being taken to mitigate future supply chain disruptions?
2. What specific upgrades have been made to the processing facilities to meet the new regulatory standards?
3. How do you plan to improve the company's liquidity position moving forward?
4. Are there any new strategic partnerships or market expansions planned for the coming year?
5. What is the expected timeline for seeing the benefits of recent investments in new recycling equipment?