Financial stability

Finance, Investment

In the absence of a cash flow statement one cannot shed further light on the cash flow of the company. However, one can contend through horizontal analysis that the main reason for such rise in bank overdraft is due to the substantial investment in fixed assets. Therefore it is imperative that such assets generate more sales in order to boost the cash flow of the company. Financial Stability The organisation is a high-geared company, which means that it is financed with a high proportion of debt capital (Pike et al. 1999, p 558).

However upon examination of the Balance Sheet, one can noted that the debt capital remained stable and the fluctuations in such ratio are due to movements in equity, which are the result of changes in profitability. Therefore it is plausible to look at the interest cover ratio, which shows the potential of operating profits to coverfinancecosts (Randall 1999, p 472). The trend of such ratio is also similar to that of the gross profit and net profit margin noted in the profitability section.

This arises since finance costs remained stable from 2011 to 2013 and the fluctuation mainly rested in profits. However, one can state that such trend indicates a weak financial stability. A high-geared company, like Nicosia Motors is normally considered a riskier company by debt providers due to the high proportion of debt. This is especially the case when the organisation holds a weak profitability and liquidity like the case at hand. These factors will diminish the likelihood that the bank will provide the necessary loan.

Therefore it is advisable for the company to proceed with equity capital at this stage. If more equity capital is raised the gearing of the company will diminish. This will portray the company more attractive for further debt finance. Another important element that one has to consider is that the company has not restriction on the issue of any share capital. Therefore it would be plausible at this stage that the organization issues some more equity capital in order to diminish the high gearing above. Investors Ratios

External stakeholders like banks are normally not interested in this category. This more affects the equity investors who are the members of the Ioannoufamily. Both the return on equity and earnings per share are highly dependent upon the profitability of the company. Therefore one can immediately envisage an imagine of a non-desirable investment at this stage. For instance, the Earnings per Share is very weak in all states. In 2013 the highest it is expected that equity investors attain total earnings of 72 cents per share, which is low.

However, as already stated this is not a main concern at this stage, since external stakeholders normally neglect this part. Final thought – FinancialHealthof Nicosia Motors Ltd. The financial analysis conducted above indicates an unhealthy organisation. This is mainly due to the weak profitability that the firm holds. Indeed such profitability element affects both the liquidity and stability of the company. Therefore management should concentrate on enhancing profitability by trying to increase sales and limit costs through cost control exercises.

In its present state there is a high probability that external debt financing will be declined to the company. This conclusion adds up with the latter paragraph of the financial stability section, where it was advised that the company should issue some more equity finance to stabilise its gearing. Further more, equity capital would be useful to finance the activities of the firm at this stage because the financial health of the company improves. Therefore this is the best possible course of action at the present stage.