Nicosia motors limited

Financial analysis is the evaluation of the viability, stability, and profitability of a business, sub-business, or project through the utilization of ratios taken from the financial statements and other reports which are used as bases for decision making. The horizontal analysis, " a procedure in fundamental analysis in which an analyst compares ratios or line items in a company's financial statements over a certain period of time," in the percentage form is to be used in the analysis of Nicosia Motors Ltd. Showing the changes in the percentage form helps the analyst to gain perspective and to gain a feel for the significance of the changes that are taking place. The analysis of the projected financial statements of Nicosia Motors Ltd is classified into four types: the liquidity, the profitability analysis, the activity analysis, and the financial leverage ratios. Of these four types, the liquidity and the financial leverage ratios are the most important to the company's financiers. The liquidity ratios are a useful indicator of the firm's ability to meet its liabilities in the near future. It, therefore, focuses on the company's cash flow and its working capital since these are the company's primary sources of cash in the short-run.

Nicosia Motors' current, quick, and networking capital ratios are as follows:

LIQUIDITY RATIOS	2010	2011	2012	2013
current assets	974	674	870	996
current liabilities	1, 238	3, 062	3, 276	2, 904
current ratio	0. 79	0. 22	0. 27	0. 34
% change	;	-72%	-72%	29%

quick assets	214	200	242	272
current liabilities	1, 238	3, 062	3, 276	2, 904
quick ratio	0. 17	0. 07	0. 07	0. 09
% change	;	-62%	13%	27%
(current assets-current liabilities)	264	2, 388	2, 406	1, 908
total assets	2, 498	3, 714	3890	3, 908
networking capital ratio	-11%	-64%	-62%	-49%
% change	;	508%	-4%	-21%

The current ratio and the quick ratios are measures of the company's short-term debt-paying ability, except that the latter does not rely on inventory while the networking capital ratio measures the company's ability to repay the current liabilities using only current assets. In the case of Nicosia, the trend is consistent with all the liquidity ratios. This means that the company would be most liquid in 2010. This will significantly decrease from 2011 through 2012. However, the company will be able to recover slightly by 2013. Liquidity is an important area of concern for the creditors since this indicates whether the company will be able to pay its liabilities when it falls due, including the current portion of its long-term debts. Based on the above analysis, as well as the fact that Nicosia has recently put in a huge investment which is expected to reverse the downtrend of the last decade, the creditors should be inclined to extend it a loan. However, the company should be able to sustain the improvement in its liquidity since the data at hand does not show that this is the case. It is important to note that although Nicosia has made a recovery, it is not enough to bring it back to its former position of liquidity. The second set of ratios is profitability analysis ratios. These indicate the company's capability to generate revenues as compared to its expenses and other relevant costs for a certain period of time. The profitability analysis ratios are composed of return on assets, return on equity, profit margin, and earnings per share.

The computations are as follows:

PROFITABILITY ANALYSIS RATIOS	2010	2011	2012	2013
net income	14	608	38	390
average total assets	1, 249	3, 106	3, 802	3, 899
return on assets	1%	-20%	-1%	10
% change	;	-1846%	-95%%	-1101%
net income	14	608	38	390

average share capital; reserves	355	406	83	259
return on equity	-4%	-150%	-45%	151%
% change	;	-3897%	-69%	-429%

The return on assets is a measure of how well assets have been employed by management in generating profits while the return on equity measures the management’s efficiency at generating profits from every unit of its share capital and reserves. The profit margin is a broad measure of profitability and should be read with other ratios to be effective. The earnings per share is also a measure of profitability, denominated as the portion of the firm’s net income for every outstanding share of common stock. An analysis of the above computations shows that the profitability ratios are positive but low at the start of the period. It drops significantly in 2011 but steadily recovers from 2012 through 2013. The significant decrease in 2011 can be explained by the incurring of redundancy costs by Nicosia as a result of the labor structuring plans and the installation of the automation systems. Structuring labor and automation are good options for Nicosia to explore. It is a onetime cash layout that would result in cost reduction in the future, resulting in higher profits. The profitability analysis would impact creditors’ decision to extend a loan to the company since better earnings assure them of the capability of the company to repay them. The third set of ratios is the activity analysis ratios. Activity ratios generally measure the company’s capability in converting its various balance sheet accounts into cash or sales.

The activity ratios are the assets turnover ratio, inventory turnover ratio, and account receivable turnover ratio, which is computed as follows:

ACTIVITY ANALYSIS RATIOS	2010	2011	2012	2013
sales	9, 38	11, 88	14, 796	16, 682
average total assets	1, 249	3, 106	3, 802	3, 899

The assets turnover ratio measures the number of sales generated from each dollar of assets. This ratio decreased through 2011 and 2012 but slightly improved in 2013. This trend is consistent with that of the profitability ratios. The inventory turnover ratio measures how many times a company's inventory has been sold during the year while the accounts receivable turnover ratio measures the average number of days taken to collect accounts receivable.

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