



SNAKWHEEL



www.studyattcs.com

Financial Analysis

CIMA Strategic Case Study (SCS)

May & August 2022



■ Revenue

- Significant growth of 19%
- Capturing market share
- Growth is slightly lesser relative to Munchbike

■ Operating Exp

- Increase is relatively less than growth in Sales
- Tight control of Op Exp.

■ Operating Profit

- Increased significantly
- Due to increasing revenues & controlling Op Exp.

■ Net Profit

- Significant growth
- Munchbike's growth was just 3%

Statement of Profit & Loss

Snakwheel			
Item	2021	2020	% Change
Revenue	1,264	1,062	19%
Operating costs	822	722	14%
Operating Profit	442	340	30%
Finance cost	74	66	12%
Profit Before Tax	368	274	34%
Tax	52	38	37%
Profit	316	236	34%

Statement of Financial Position

■ Non current Assets

- Moderate growth
- Driven by increments in
 - PPE
 - Software development
- Significant portion of intangible assets (38%)

■ Equity

- Slight growth
- Share Capital remained constant
- Retained earnings increased slightly (4%)

■ Bank Balance

- Increased slightly (4%)

■ Borrowings

- Significant growth
 - Borrowings used to fund investments?

Snakwheel			
Item	2021	2020	% Change
Non current Assets	7,160	6,849	5%
Current Assets	345	320	8%
Equity	6,366	6,160	3%
Non current liabilities	983	885	11%
Current Liabilities	156	124	26%

Statement of Changes in Equity

■ Dividends

- *35% of profits paid as dividends*
- *65% of profits retained within the business*
 - *Moderate dividend payout, given the exponential growth in profits*
 - *The Company has enough reserves*
 - *Earnings retained for future investment purposes?*

Ratio Analysis

Snakwheel				
Type	Ratio	2021	2020	Difference
Profitability	OP Margin	35%	32%	3%
	NP Margin	25%	22%	3%
	ROCE	6%	5%	1%
Activity	Receivable Days	31	32	(0)
	Inventory Days	-	-	-
	Payable Days	45	43	2
	CCC	(14)	(11)	(2)
Gearing	Gearing 1	15%	14%	1%
	Gearing 2	13%	13%	1%
	Interest Cover	6	5	1
Liquidity	Current Ratio	2.2	2.6	(0.4)
	Quick Ratio	2.2	2.6	(0.4)

Ratio Analysis: Profitability

- **OP Margin** has increased by 3% - **Marginal**
 - *OP Margin in 2021: 35%*
 - *Sales increased by 19%*
 - *Operating Expenses increased by 14%*
 - *Growth in OP Exp is lower than growth in sales*

- **NP Margin** has increased by 3% - **Marginal**
 - *Better management of costs*

- **ROCE** has increased slightly by 1%
 - *Typical of the industry*
 - *Low margins*

Ratio Analysis: Activity

- **Receivable days** has remained constant
 - *Customers settle dues within 30 days*
 - *Better than Munchbike*
- **Inventory days:** not applicable
 - *Lack of inventories*
- **Payable days** has dropped by 2 days
 - *Company settles amounts owed within 45 days*
 - *Better than Munchbike*
- **CCC**
 - *Has increased by 2 days*
 - *However, the CCC is negative due to high payable days*
 - *No real issue*

Ratio Analysis: Gearing & Liquidity

- **Gearing** has increased slightly by 1%
 - *Gearing is at an acceptable level (13%)*
 - *Can easily raise debt finance in the future*
- **Current Ratio** has decreased slightly
 - *Ideal is 2:1 (actual is 2.2:1)*
 - *No issue*
- **Interest Cover** has improved slightly
 - *Can easily meet its debt obligations*
- **Acid test ratio** is not applicable
 - *Due to lack of inventories*

Financial Analysis

Munchbike



■ Revenue

- Significant growth of 23%
 - Growth is slightly higher than Snakwheel
- Capturing market share

■ Operating Exp

- Increase is extremely high relative to growth in Sales
- Failed to control Operating Expenses

■ Operating Profit

- Slight decrease
- Due to Op Expenses increasing greater than revenue

■ Net Profit

- Slight growth
- Growth is significantly lesser than Snakwheel
 - Driven by decreasing Finance Cost

Statement of Profit & Loss

Munchbike			
Item	2021	2020	% Change
Revenue	1,100	892	23%
Operating costs	737	523	41%
Operating Profit	363	369	-2%
Finance cost	96	108	-11%
Profit Before Tax	267	261	2%
Tax	37	37	0%
Profit	230	224	3%

Statement of Financial Position

■ Non current Assets

- *Slight growth*
- *Driven by increments in*
 - PPE
 - Software development
- *Significant portion of intangible assets (35%)*

■ Equity

- *Slight growth*
- *Share Capital remained constant*
- *Retained earnings increased slightly (3%)*

■ Bank Balance

- *Decreased exponentially (54%)*
- *Due to Op Expenses increasing by 41%*
- *Due to settling payables relatively faster*

■ Borrowings

- *Decreased slightly*

Munchbike			
Item	2021	2020	% Change
Non current Assets	5,945	5,667	5%
Current Assets	294	479	-39%
Equity	5,122	5,005	2%
Non current liabilities	960	991	-3%
Current Liabilities	157	150	5%

Statement of Changes in Equity

■ Dividends

- *49% of profits paid as dividends*
- *51% of profits retained within the business*
 - *High dividend payout*
 - *Paying high dividends to keep shareholders happy, to counter slight growth in profits*
 - *The company has enough reserves*

Ratio Analysis

Munchbike				
Type	Ratio	2021	2020	Difference
Profitability	OP Margin	33%	41%	-8%
	NP Margin	21%	25%	-4%
	ROCE	6%	6%	0%
Activity	Receivable Days	44	51	(7)
	Inventory Days	-	-	-
	Payable Days	60	81	(21)
	CCC	(16)	(30)	14
Gearing	Gearing 1	19%	20%	-1%
	Gearing 2	16%	17%	-1%
	Interest Cover	4	3	0
Liquidity	Current Ratio	1.9	3.2	(1.3)
	Quick Ratio	1.9	3.2	(1.3)

Ratio Analysis: Profitability

- **OP Margin** has decreased by 8%
 - *OP Margin in 2021: 33%*
 - *Sales increased by 23%*
 - *Operating Expenses increased by 41%*
 - *Growth in OP Exp is higher than growth in sales*

- **ROCE** has remained constant
 - *Typical of the industry*
 - *Low margins*

- **NP Margin** has decreased by 4%
 - *Mismanagement of costs*

Ratio Analysis: Activity

- **Receivable days** has decreased by 7 days
 - *Customers settle dues within 45 days*
 - *Snakwheel: 30 days*
- **Inventory days:** not applicable
 - *Lack of inventories*
- **Payable days** has dropped by 21 days
 - *Settling amounts owed relatively faster (60 days)*
 - *Snakwheel: 45days*
- **CCC**
 - *Has increased by 14 days*
 - *However, the CCC is negative due to high payable days*

Ratio Analysis: Gearing & Liquidity

- **Gearing** has decreased slightly by 1%
 - *Gearing is at an acceptable level (16%)*
 - *Can easily raise debt finance in the future*
- **Current Ratio** has decreased
 - *Ideal is 2:1 (actual is 1.9:1)*
 - *No issue*
- **Interest Cover** has remained unchanged
 - *Can easily meet its debt obligations*
- **Acid test ratio** is not applicable
 - *Due to lack of inventories*

THANK YOU!



www.studyattcs.com

