

Credit appraisal  
IES FSV UK  
Course: Banking  
December 2019

**Alza.sk**



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## 1. Client details

**Name:** Alza.sk s.r.o.

**Domicile:** Bratislava, Slovakia

**Telephone:** not stated

## 2. Credit details

**Type of financing:** Bank loan

**Total amount:** 600,000 €

**Interest rate:** 5.7 % p.a.

**Type of depreciation:** straight-line basis, annual, full depreciation

**Repayment frequency:** quarterly

**Maturity:** 3 years

**Schedule:** 12 regular instalments amounted to 54,750 €

**Collateral:** Purchased cars

**Creditor:** Slovenská sporiteľňa

## **Non-financial Analysis**

Alza.sk is built on strong history of its parent company, Alza.cz and is well established on the Slovakian market. Long-term, it is one of the biggest consumer electronics retailers, second biggest e-commerce store in Slovakia, indicating that the company has a good name in the country. Alza.sk mainly focuses on electronics, but also offers a large portfolio of services such as car components (tires, car batteries, accessories), electric cars, books, toys, cosmetics, sport and outdoor equipment. The application does not mention the sale shares of individual products, however, the most sold products are mobile phones which account for 26% of all sales. This indicates that the company benefits from selling primary electronics.

In 2018 Alza.sk and Alza.cz together served 3,7 million unique customers. Their sales period is seasonal – the peak season is before Christmas.

Alza.sk is an innovative company with a strong motivation to improve its processes. The company focuses on customer experience, constantly tries to improve and innovate their delivery system, since, according to customers, that is the most demanded service to be improved and simplified in similar sectors of industry.

The chairman of the board of directors, Aleš Zavoral, leads the company most efficiently. Up to this date, the company does not have debts to banks.

## **SWOT Analysis**

Credit application includes a SWOT analysis of the business; however, some of the strengths mentioned are a subject to debatable. With their business focusing on selling electronics, the company states that one of their strength is the diversity of its products. The question is whether in the long term, offering a wide selection of other products beside electronics is good for brand recognition and helps the company to retain its strong position on the electronics e-commerce market. Since the company states its strong position on the electronics market as one of its strengths, it is questionable whether the sale of other products (i.e. car components) contributes to further development of this goal. On their way to becoming the strongest player on the market, this dilution of the company's portfolio can potentially become a liability.

The weaknesses are stated very clearly and are reasonable, however, the company put an effort into improvement of these weaknesses.

## **Credit Application Structure**

Overall, the credit application is very well structured, it summarizes everything it should, including even more advanced ratios, such as debt/equity. All necessary excel sheets are attached to the report as well.

## **Financial Analysis**

The financial analysis is based on the data from the last 3 years (2016 – 2018). The balance sheet, profit and loss statement are clearly commented. The whole cash flow statement is missing, the reason being that the company does not publish it. The attached MS Excel sheet includes the required calculation of ratios without significant mistakes detected.

### **Balance Sheet**

The analysis of balance sheet shows that the structure of assets and liabilities of Alza.sk has not changed much over the examined years. The largest percentage of assets is represented by the tangible fixed assets – as expected, because Alza.sk has a lot of stores. We observe that on the liability side, the most significant items are the short-term liabilities and in the past two years, Alza.sk did not have any high long-term liabilities - a positive sign, because it means that it does not have any long-term debt.

### **Profit and Loss Statement**

The income statement shows stable situation of Alza.sk in terms of financial performance. All items on the profit and loss statement has been increasing over the years, which indicates that the company is developing and growing. A crucial observation is that the profit has been growing, this tells us that the company is stable and with a positive growth.

### **Cash Flow Statement**

As stated earlier, the cash flow statement is not included, since the company does not publish it. However, a partial statement could have been calculated based on the provided statements.

## **Ratio Analysis**

The stability and solid performance of the company are supported by the profitability ratios, all of which were increasing over the past years. In the industry comparison, it is visible that the company outperforms Mall.sk in all cases. We can also see that the company has successfully lowered its debt ratios during the past three years.

In general, the company seems to have finances fully under control, it is profitable and growing from year to year.

## **Feasibility of the Business Plan**

The company has raised a relatively small number of long-term goals, which are, however, neatly defined and, considering past performance, attainable. For a company of this size, broader future goals could have been selected, though. With respect to historical growth, the forecast rates of revenue growth have been selected relatively conservatively, therefore, they are to be considered feasible. The methods for forecasting both the profit and loss statement and the balance sheet are robust and present realistic expectations.

## **Feasibility of the Project**

The proposed project responds well to the company's strategy. The AlzaExpres is one of the ways how to speed up transportation and eventually, to lower the price for customers. It is one step closer to the company's desire to move to P2P platforms in the future because there is no third party involved. The Eastern part of Slovakia already has a delivery system in service so there should be no further costs. This project may lead to strengthening the market position in the Eastern Slovakia and therefore, greater competitiveness. However, this project also goes against the company's ecological strategy of reducing its negative environmental impact on the world since it enables a higher usage of diesel cars.

# SWOT Analysis of the Credit

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>+ Experience with similar projects</li> <li>+ Strong brand (15 years in Slovakia)</li> <li>+ Strengthening market position in region</li> <li>+ Excluding third party</li> <li>+ Financial stability</li> </ul>	<ul style="list-style-type: none"> <li>- Increase in debt</li> <li>- Seasonality</li> <li>- Not environmentally friendly</li> <li>- Limited to the surroundings of Košice</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>+ New job opportunities</li> <li>+ Generating additional revenue</li> <li>+ Building brand and its reputation</li> </ul>	<ul style="list-style-type: none"> <li>- Uncertainty regarding consumers' behavior (mood)</li> <li>- Dependence on economic cycle</li> <li>- Traffic and car accidents</li> <li>- Fluctuations of fuel price</li> </ul>

## Pro / Cons for the Credit

According to the financial statements presented, the financial situation of the company seems stable. Together with the prior experience in expansion to new regions, this should serve as a guaranty for the bank. Already existing extensive network of stores and AlzaBoxes in Slovakia has proved that there is a high demand for company's services. And such demand turns out to be profitable as well.

# DECISION OF CREDIT COMMITTEE

Date 02/12/2019

...X.../approved

...../ not approved

...../ approved with conditions

## ***Recommendations:***

Most financial aspects of the company seem to be in order and therefore should not hinder the approval of the credit application. However, the committee would welcome the publication of the missing cash flow statement. Moreover, more specific time frames for the project and more precise specification of the company's future plans would be highly welcome.

Moreover, an important thing to note is the depreciation of cars purchased for the project, these tend to depreciate rather fast, even more so when combined with write-offs due to accidents. The depreciation of those can, therefore, be faster than the values estimated here. Lastly, an advancement towards a narrower product portfolio, offering mostly consumer electronics, might be a way to capitalize on the company's solid reputation as an electronics e-retailer.