

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Trade and Finance**



**Diploma Thesis**

**Financial analysis of credit profile of selected  
company/companies**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## DIPLOMA THESIS ASSIGNMENT

Bc. BcA. Yelyzaveta Uzyiuk, BA

Economics Policy and Administration  
Business Administration

Thesis title

**Financial analysis of credit profile of selected company/companies.**

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### Objectives of thesis

- Create a financial analysis of credit profile of selected company/companies,
- Find the weakness of credit profile of selected company/companies,
- Propose suggestion for improvement for selected company/companies.

### Methodology

- Literature research,
- Performing a financial analysis,
- Identifying weak points in credit profile,
- Suggesting areas to improve.

**The proposed extent of the thesis**

x

**Keywords**

Rentability, breakeven point, financial analysis, credit profile.

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**Recommended information sources**

CAMILLERI, E. CAMILLERI, R Accounting for Financial Instruments: A Guide to Valuation and Risk Management. New York: Routledge, 2017. 438 p. ISBN 978-1-138-23757-5  
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WARREN, C. et al. Corporate Financial Accounting. Boston: South-Western College Pub, 2016. 738 p. ISBN 978-1305653535

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## **Declaration**

I declare that I have worked on my diploma thesis titled "Financial analysis of credit profile of selected company/companies" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 31.03.2021

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**Uzyiuk Yelyzaveta**

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# Financial analysis of credit profile of selected company/companies

## Abstract

This master's work is dedicated to the field of finance. The main aim of this thesis is a creating of financial analysis of credit profile of selected company/companies - Alza.cz a.s. and HP Tronic Zlín spol. s.r.o.

The research covers the last 5 years, data available for these years: from 2015 to 2019. Alza's study indicated the following: main part if assets are current assets – 6.192 million CZK, company is using quite aggressive strategy aiming on constant growth of using debts, revenues are consisted mainly from sales of goods in average 16.961 million CZK annually, company is facing a decrease of activities ratio turnover, ROA is 14 % and finally according to Z-score and Kralicek quick test bankrupt is not likely and company worth for investing. HP TRONIC's research indicated: current assets are also main part of the assets – 3.670 million CZK, for expansion purpose company is using non-bank debts, debt ratio is increasing., average annual sales are 14.515 million CZK, activity turnover is growing, ROA is 2 %, according to Z-score company is facing a bankrupt, but dynamic is a positive, however according to Klalicek quick test showed, that the company can be recommended as a firm that does not face bankruptcy.

The firm Alza has the following negative elements in its rating: the probability AliExpress and Amazon strengthen their position in the local market and the Growth of the company's debt. The firm should stop the growing debt, as it became very visible. Any change in the enterprise's financial policies may be negatively perceived by the lenders. On the other hand, the study revealed the following positive aspects of the rating: Leading position in the Czech market, portfolio diversification, expansion started abroad and positive results of the Z-score test and Kralicek quick test. According to the study, HP TRONIC has the following negative elements: unstable rentability ratio, negative working capital in some years and Z-score calculation show firm's bankruptcy. On the other hand, this is compensated by the growing activity ratio, rapidly growing profits of the company, especially from the sale of its services and the Successful acquisition with Datart.

**Keywords:** rentability, breakeven point, financial analysis, credit profile.

# Finanční analýza úvěrového profilu vybrané společnosti / společnosti

## Abstrakt

Tato magisterská práce je věnována oblasti financí. Hlavním cílem této práce je vytvoření finanční analýzy úvěrového profilu vybrané společnosti / společností – jedná se o Alza.cz a.s. a HP Tronic Zlín spol. s.r.o.

Výzkum zahrnuje období posledních 5 let, data jsou dostupná pro období od roku 2015 do roku 2019. Analýza Alzy naznačila následující: hlavní část majetku jsou oběžná aktiva s 6.192 mil. Kč, společnost používá poměrně agresivní strategii zaměřenou na neustálý růst výše dluhů, výnosy se skládají hlavně z prodeje zboží v průměru 16.961 mil. Kč ročně, společnost čelí poklesu obratu aktivity, ROA je 14 % a konečně podle Z-skóre a Kralického rychlého testu není bankrot pravděpodobný a společnost stojí za investování. Výzkum společnosti HP TRONIC zjistil následující: hlavní část aktiv tvoří také oběžná aktiva – 3.670 mil. Kč, pro účely expanze společnost využívá nebankovní dluhy, zadluženost se zvyšuje, průměrné roční tržby jsou 14.515 mil. Kč, aktivita roste, ROA je 2%, podle Z-skóre čelí společnost bankrotu, ale dynamika je pozitivní, nicméně podle Klaličikova rychlého testu je zřejmé, že společnost může být doporučena jako firma, která nečelí bankrotu.

Společnost Alza má ve svém hodnocení úvěrového profilu následující negativní prvky: pravděpodobnost, že si AliExpress a Amazon upevní svoji pozici na místním trhu a růst dluhu společnosti. Firma by měla zastavit rostoucí dluh, protože ten se stal velmi viditelným a může být potenciálním rizikem. Výzkum na druhé straně odhalil následující pozitivní aspekty úvěrového profilu: vedoucí postavení na českém trhu, diverzifikace portfolia, expanze zahájená do zahraničí a pozitivní výsledky testu Z-skóre a rychlého Kralickova testu. Podle provedené studie má HP TRONIC tyto negativní prvky: nestabilní poměr rentability, negativní provozní kapitál v některých letech a výpočet Z-skóre poukazuje na možný bankrot firmy. Na druhou stranu je to kompenzováno rostoucím poměrem aktivity, rychle rostoucími zisky společnosti, zejména z prodeje jejích služeb a úspěšné akvizice u společnosti Datart.

**Klíčová slova:** rentabilita, bod zvratu, finanční analýza, úvěrový profil.

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# 1 Introduction

This master's work is dedicated to the field of finance. There are no doubts that the finance area is one of the fundamental areas in the world of modern enterprise management and is also a source of knowledge about the company and its financial condition.

The main activity of financial management is to operate financial resources and financial relations while running a business. The financial management process itself is similar to accounting and applies the same sources of information.

While accounting records the transactions that are already completed, financial management focuses on the future and analyses the efficiency of the company.

There are a lot of areas of financial management and it is not possible to fully analyse all of them in one work. Therefore, it was decided to focus on the financial analysis and the credit rating of the company.

Financial analysis or financial statement analysis is a type of economic analysis which studies the financial results of the state of the organization.

After performing the financial analysis, the strengths and weaknesses of the enterprise are determined. It gives the possibility to control the effectiveness of the management of the firm. The financial analysis of a company is like an X-ray from a doctor. It gives the possibility of looking inside the financial condition of the company under investigation.

The topic of enterprise finance is huge and it is impossible to disclose it within the framework of a master's work. Therefore, it was decided to focus on only one area – the Credit Profile. This area was selected because nowadays the largest projects are implemented precisely with the help of attracted capital and not with the capital of the company itself.

The credit profile and its improvement are for investors and the recipients the fundament for work. Good Credit history or a good credit profile will help to get not just a loan, but also achieving good conditions to obtain it and subsequent payment while the opposite situation can become a major stumbling block.

Moreover, to determine the credit profile will be applied to the financial analysis that was carried out by all rules. Further, it will be considered the general situation in the industry as well as the future situation, including the possibility of increasing competition.

The diploma work will be written based on the Czech market. Here in the Czech Republic, the area of the stock market is not fully developed yet, as it is lacking the possibility of financing projects with the stock exchange. Therefore, the main emphasis in determining the credit profile will be oriented to a potential investor or a bank.

There were chosen 2 companies for the study: Alza.cz a.s. and HP Tronic Zlín spol. s.r.o. Alza has been selected because it is the main Czech online store of electronics. The company HP Tronic Zlín spol. s r. o., owns Euronics and Datart and is the third largest firm in the sector. They were selected due to their key position in the market.

The work is based on the following literature resources: Accounting for Financial Instruments: A Guide to Valuation and Risk Management from Camilleri, E. Camilleri, R. Economics: The Definitive Encyclopedia from Theory to Practice [4 volumes] written by Dieterle, D and Corporate Financial Accounting from Warren, C. and many others.

## **2 Objectives and Methodology**

### **2.1 Objectives**

The main aim of this thesis is a creating of financial analysis of credit profile of selected company/companies.

The goal is very broad, so it was decided to divide it into partial goals, that would help to work out the main goal in details. These are the following partial goals: to create a financial analysis of credit profile of selected company/companies, to find the weakness of credit profile of selected company/companies and to propose a suggestion for improvement of selected company/companies.

### **2.2 Methodology**

The work methodology is founded on several consecutive parts. All of the methodological parts establish the above goals and are aimed at fulfilling the main goal of this diploma work.

The first part consists of literature research of the studied area. It is performed based on several books and is the theoretical foundation for further analysis. The message of the first methodological step is the creation of the financial analysis methodology of the company and its Credit profile. The foundation of this chapter will be the study of Users of financial analysis and their needs, and Methods of financial analysis: Horizontal, plus vertical analysis, Ratio analysis as well as Altman Z-Score and Kralicek Quick-test. All described technique will further be applied in practice on the example of Alza and HP TRONIC firms.

The next step is the detailed analysis and application of the methodology developed in the previous part of the master's work. Firstly, it is needed to present briefly the industry and the most important firms in the field. Further, we will narrow our attention to two firms Alza.cz a.s. and HP Tronic Zlín spol. s.r.o. The research will cover the last 5 years, data available for these years: from 2015 to 2019. Five years is a sufficient period to assess the profile of the company. It will follow a study of changes in the Balance sheet statement and Income statement. Additionally, more complex indicators related to Ratio analysis will be applied, namely Activity ratio, Liquidity ratio, Rentability ratio and Debt ratio. The last step in the financial analysis of firms is the Altman Z-Score and Kralicek Quick-test.

The following methodological step is the identification of strong-weak points in the credit profile. In this chapter, the level of this object is considered from the possibility of its creditworthiness. In terms of volume, it will be the smallest chapter, but it is also the part with the largest added value.

From the above listed methodological steps, the following are the used methods: synthesis, financial analysis, comparison and deduction. All methods are applied throughout the whole master's diploma.

### **3 Literature review**

In the first chapter of the master's work, the author will be writing about users' investigation and the reasons for conducting financial analysis and its methodology. The chapter is devoted to the introduction into the problems of financial analysis and its place in the financial management of a company.

#### **3.1 Introduction into financial analysis**

The well-conducted financial analysis of the enterprise gives the possibility to obtain a set of indicators that not only describe the financial condition of the organization, but also serve other purposes - especially financial management needs. Based on the results of the financial analysis, the financial manager of the company makes conclusions about the effectiveness of the company and decides how to achieve the required condition (Herman, 2004). So, the financial analysis of the firm is the first step in financial management (Camilleri, 2017). Finally financial analysis may be used for identifying possible fraud (Gottschalk, 2016).

Financial analysis is based on a process of research and analysis of the performance of the firm. The main result of this analysis is the creation of an objective assessment of the financial condition of the company. Moreover, understanding the current state of the company is not the main goal, but the creation of the most reasonable decisions for further development is the basis of the financial analysis.

As a rule, financial analysis is based on the assessment of data from the accounting department of the company (Haines, 2016). Therefore, financial analysis can be the following stage of financial management, which occurs after the closing of accounting books. The initial stage of financial analysis is to answer clearly the question - who is the main recipient of the results of financial analysis. The management of the company will be interested in the further development of the company; the owners will be concerned about the return on investment; the bank or the investors will seek to know about the credit profile, etc. There will be another chapter describing this stage.

The next step is to assess the reliability of the information (Camilleri, 2017). It is necessary to select only the information that is relevant to this study. It will be founded on the accounting bookkeeping and basic indexes of annual accounting. Accounting data can be

expanded, and other information can be added. For example, information from the logistics department, from the personal department, etc.

The next step is the financial analysis based on the data collected in the previous stage. This stage usually includes the initial horizontal and vertical analysis of accounting indicators.

In the next stage, Ratios are investigated, and the relationship between different groups of indicators: rentability, activity, debt rations etc. A separate chapter in this master's work is devoted to this area. Finally, other indicators or the comparison with the norm/industry average indicators are used.



### **3.2 Users of financial analysis and their needs**

Here are the following main groups of users of financial analysis results: the management of the company and its owners, investor, creditor, partners of the firm, journalists and the general public, employees of this company, the state and students of economic universities (Dieterle, 2017).

The main user of financial analysis data is the management of the company and of course its owners (Wright, Watkins, 2012). The owners of the company are mainly interested in the appreciation of their funds, invested in the business in the long term (Belbin, 2013).

The purpose of their investment is to continuously increase the price of a stock or the net profit of the firm, or the combination of both. Profitability indexes are a typical example of the owner's maximum interest. This group also may include a potential investor who may be looking for interesting financing projects. The management is interested in the same, but this certain group can be detected the scope of ensuring that the profits stay in the firm and are reinvested back into the company. The management of the company usually knows much more about the firm and so is interested in more details about the business than other entities listed below (Zellweger, 2017).

The creditor puts pressures on the ability of the firm to pay its debts (Bezjak, 2010). This stakeholder group is therefore most interested in debt ratios and the overall credit profile of the company. Besides, creditors also look into the liquidity, as it is the main indicator of the ability of the firm to pay its debts. All creditors can be divided into two large groups: banks and non-banking entities.

The partners of the company may also be interested in the results of the financial analysis of the firm. They will be considering long-term cooperation with this company (Mehta, 2011).

Journalists and the general public are the next groups. The interests of this group of people are less detailed. It should also be noted that the general public is increasingly keen to know about the financial results of the company and its social responsibility and care for the environment. All this leads to the fact that firms in their financial reports also write what has been done in the field of social responsibility.

Company's employees are interested in the ability of the firm to provide jobs. There has recently appeared a trend of providing bonuses to employees that is based on the annual

financial results of the company (Harris, 2009). So, the employees are increasingly interested in the results of the activities of the company.

The state may also be one of the main users of financial analysis (Dieterle, 2017). For example, donations and grants, which also involve the creation of a brief financial analysis of the company.

An interesting group of people are the students of economic universities who also perform their financial analysis (Rich, 2011). This group of people wants to apply in practice the theoretical knowledge obtained at the university. The creation of a master's work or master's thesis in this domain is a good first step towards a professional career.

### **3.3 Methods of financial analysis**

Further, the main methods of financial analysis will be investigated - namely, horizontal and vertical analysis, ratio analysis, as well as other indicators that are of an auxiliary nature, such as: Atlman Z-score and Kralicek Quick test.

#### **3.3.1 Horizontal and vertical analysis**

The first step before conducting a financial analysis of a company is the initial familiarization with its activities. Horizontal and vertical analysis of accounting signs is ideal for this purpose.

The first type of analysis is based on the analysis of the development of the index over time. The previous year is used most often or another initial year. Moreover, the changes can be considered both absolutely in monetary units and relatively in percentage. For qualitative analysis, it is necessary to select at least three years, otherwise, it is impossible to understand how the trend developed.

This analysis can also be used when comparing with other firms (Rich, 2011). It is important to compare similar firms. It is also good to compare pointers with indicators of the same period last year. This approach to financial analysis is used for companies with a strong seasonal factor, such as those working in tourism.

The main result of this analysis is to establish a trend in the activities of the enterprise based on the analysis of changes in indicators over time. This type of analysis has also a disadvantage. It is the sensitivity to the choice of the base period when compared with one year. This approach can even lead to manipulation of research results.

The vertical analysis does not measure the changes, but the relationship of each pointer to a certain amount. For example the counting of each expense on the sum of all the expenses of the company. The calculation formula is the following:

$$\frac{A_i}{\sum A_i}$$

$A_i$  in this formula is a specific unit and  $\sum A_i$  is the sum of all units related to the total amount.

### 3.3.2 Ratio analysis

This type of analysis, in contrast to the previous one, measures indicators that are in different parts of the balance sheet or income statement (Warren, 2016). Otherwise, they even measure pointers between the two financial documents.

Further, the main methods of calculating the ratio analysis will be disclosed, such as the Activity ratio, Liquidity ratio, Rentability ratio and Debt ratio.

#### Activity ratio

The next group of pointers measures the turnover or the turnover period of the assets of the firm. These indicators show the ability of the company to use its assets. The following pointers are used for calculation:

$$\text{Total assets turnover ratio} = \text{Sales} / \text{Average total assets}$$

$$\text{Fixed assets turnover ratio} = \text{Sales} / \text{Average fixed assets}$$

$$\text{Inventory turnover ratio} = \text{Cost of goods sold} / \text{Average cost of inventory}$$

Then it is necessary to compare the turnover of the payables and receivables of the firm. No doubt, any financial manager strives to make his customers pay as quickly as possible, in order to pay off their debts as long as possible. The reason is clear – to improve the cash flow of the company. The calculation formula is as follows:

$$\text{Account receivables turnover ratio} = \text{Sales} / \text{Average accounts receivables}$$

$$\text{Account payables turnover ratio} = \text{Purchases} / \text{Average accounts payables}$$

### **Liquidity ratio**

The liquidity of the company is its ability to pay its debts (Godwin, 2012). When assessing the liquidity, short-term debts are examined in the first place. There is no one universally accepted measure of liquidity; the structure of the industry in which the firm operates should always be investigated. For example, the liquidity of a bank will always be higher than the liquidity of a construction company. The following indicators are used to calculate liquidity:

$$\text{Current ratio} = \text{Current assets} / \text{Current liabilities}$$

$$\text{Quick ratio} = \text{Cash} + \text{receivables} / \text{Current liabilities}$$

$$\text{Quick ratio} = \text{Current assets} - \text{inventory} / \text{Current liabilities}$$

$$\text{Cash ratio} = \text{Cash} / \text{Current liabilities}$$

High liquidity of a company is not the benchmark. On the contrary, too high liquidity may indicate that the firm is wasting its resources irrationally. It is much more important for corporate finance to have high profitability. The firm should find a compromise between its working capital and liquidity.

### **Rentability ratio**

The highest and most important group of indicators is profitability (Godwin, 2012). This group of pointers is the most important for investors who want or have already invested money in a company. Their goal is not just to return their capital, but also to increase it.

To calculate this pointer, it is necessary to compare the input and output that go through the firm. The input can be the number of employees, the amount of capital invested, or some other indicator. The output is usually the net income or other similar characteristics such as EBIT, EBITDA, turnover, etc.

The first and most important indicator is ROE (return on assets). This index is calculated by the following formula:

$$ROE = \text{Profit} / \text{Equity}$$

The next pointer is ROA It is calculating in the following way:

$$ROA = \frac{Profit}{Assets}$$

The profitability of the turnover of the company can be calculated using the following formula:

$$ROS = \frac{Profit}{Sales}$$

### **Debt ratio**

Debt is also important to assess the finances of the firm (Godwin, 2012). That capital is taken from outside the company (for example in a bank) is usually cheaper than capital received from investors. The reason is simple - investors will always want to get dividends and will of course influence management's decisions. In the case of bank debt, nothing like this may happen: after the payment of the debt, the bank has no power over its debtor. Moreover, the payment of dividend cannot be recognized as an expenditure part of the budget of the company. Whereas the interest on the debt is the financial expense of the company.

The risk of debt buildup should also be taken into account. Plus, an overly indebted firm will not have a good rating.

As a rule, the calculation of these indicators is based on a comparison of the equity of the firm and its debts. The following formulas are used for the calculation:

$$Debt\ ratio\ I = \frac{Debt}{Assets}$$

$$Debt\ ratio\ II = \frac{Debt}{Equity}$$

$$Debt\ ratio\ III = \frac{Equity}{Assets}$$

### **3.3.3 Altman Z-Score and Kralicek Quick-test**

The complex indexes of financial analysis can be calculated based on many indexes, and not just one, as it was in the previous part. For the tasks of this master's work, two pointers have been selected: Altman Z-Score and Kralicek Quick-test.

## Altman Z-Score

The first pointer comes from a mathematical formula based on the Z-score. There are many modifications of this test. For this master's work the following formula will be used:

$$Z - score = 1,2 \times \frac{Working\ capital}{Assets} + 1,4 \times \frac{Profit}{Assets} + 3,3 \\ \times \frac{EBIT}{Assets} + 0,6 \times \frac{Equity}{Liabilities} + \frac{Sales}{Assets}$$

After the final calculation, it is necessary to understand to what interval the result is related to. If the number is less than 1,8, then company is facing a bankrupt. In the second case, the result can be from 1,8, to 3. This means a grey zone. And finally, everything above 3 means, that company is not likely to go bankrupt.

## Kralicek Quick-test

Kralicek Quick-test comes out of calculating four indices:

$$R1 = \frac{Equity}{Assets}$$
$$R2 = \frac{Debts - Cash}{Cash\ flow}$$
$$R3 = \frac{Cash\ flow}{Sales}$$
$$R4 = \frac{EBIT}{Assets}$$

After the initial calculation, it is possible to compare the result with the following table:

Table 1. Kralicek Quick-test, initial evaluation of results

	<b>Excellent</b>	<b>Very good</b>	<b>Good</b>	<b>Insufficient</b>	<b>Dangerous</b>
<b>R1</b>	> 30 %	>20 %	>10 %	>0 %	Negative
<b>R2</b>	<3 years	<5 years	<12 years	<30 years	>30 years
<b>R3</b>	> 10 %	>8 %	>5 %	>0 %	Negative
<b>R4</b>	> 15 %	>12 %	>8 %	>0 %	Negative

Source: ANTONETA, 2014

Ultimately, according to the data obtained, each index corresponds to the following number of points:

Table 2. Kralicek Quick-test, final evaluation

<b>Index <math>R_x</math></b>	<b>Result of index <math>R_x</math></b>	<b>Number of gained points</b>
<b>R1</b>	0,3 and more	4
	0,2-0,3	3
	0,1-0,2	2
	0,0-0,1	1
	0 and less	0
<b>R2</b>	3 and more	4
	3-5	3
	5-12	2
	12-30	1
	30 and less	0
<b>R3</b>	0,15 and more	4
	0,12-0,15	3
	0,08-0,12	2
	0,00-0,08	1
	0,00 and less	0
<b>R4</b>	0,1 and more	4
	0,08-1	3
	0,05-0,08	2
	0,00-0,05	1
	0,00 and less	0

**Source: ANTONETA, 2014**

The last methodical step is to calculate the average. If the result is less than one, then it is better not to get involved with this company, because it is threatened with bankruptcy. If the result is between 1 and 2, then, you may invest in this company. All scores higher than 2 indicate a firm that does not face bankruptcy at all and is safe (Antoneta, 2014).



## **4 Credit profile**

Last chapter of master thesis is dedicated to credit profile, rating and its valuation.

### **4.1 Credit rating**

Undoubtedly, one of the main problems in the financial market is information asymmetry. Almost every potential investor faces this problem. This asymmetry appears because the borrower or the issuer of the debt, as a rule, has a very good understanding of the factors that influence the level of their own credit risk. Conversely, the lender or investor does not have such knowledge. Therefore, the calculation of the credit rating is used to establish the Credit profile. This rating discloses additional information about the entity, which helps the investor or lender to reduce uncertainty in the financial market (Doyle, 2011).

Credit rating - is the assessment of the creditworthiness and solvency that is assigned to a borrower based on a study of his profile. The borrower's profile is calculated based mainly on the financial analysis of the enterprise (Naciri, 2015). Credit rating is needed to answer a certain question - to give or not give a loan to a particular applicant. The second important question is - under what conditions to give the loan.

Credit profile research can be divided into two areas - the credit rating of individuals and the credit rating of legal entities. The topic of this master's work is the study of the credit rating of companies, so, we will focus further specifically on the credit profile of legal entities.

The calculation of this rating is founded on the financial analysis, which was described above. Moreover, this rating is based on the assessment of the risk factors of the company under study. The most important result of a financial rating is to answer the question - to provide a potential lender with information about the likelihood of timely payment of financial obligations (Naciri, 2015).

The credit rating can be provided at the request of the client, but the agency may calculate the rating on its own. In the first case, the rating is called the solicited credit rating, while in the second case it is called the unsolicited credit rating. Of course, the first type of rating is paid and the subject requesting this information is obliged to provide all financial statements. In the second case, the rating agency itself conducts an analysis based on the available data.

## **4.2 Valuation of credit profile**

There are two options for researching the credit profile of firm – to create your department that would be engaged in researches of your methodology, or to use the services of externalists. In the first case, the firm will receive a methodology that meets only its requirements and complies with its internal standards and policies. In the second case, the firm does not need so big investments, but the firm gets an average result that is not tailor-made (Doyle, 2011).

Of course, not all firms can afford to maintain their department that would be engaged in analyzing the client's financial profile (Beyer, 2010). As a rule, there are such departments in banks or large firms. That is why the so-called credit bureau or credit bureaus have spread all over the world. This term indicates organizations that maintain a database about the financial condition and credit history of borrowers. The main purpose of these enterprises is to give such information to creditors. The main mission of such organizations is to facilitate access for lenders to information about unreliable borrowers.

Next, the issue rating and the issuer rating is not the same thing. In the first case, it is about the issue of a specific financial instrument (Naciri, 2015). In the second case, it is about the rating of the issuer itself, who issues these securities. So, it may well happen that one issuer will have a different rating for its securities.

As a rule, when calculating the rating, quantitative and qualitative factors are used. The first group of factors includes, first of all, the economic situation of a given subject, which can be calculated using the methodological apparatus described above. On the contrary, qualitative characteristics cannot be calculated so well; this can include, the level of management or relations with key partners (Doyle, 2011).

### **4.3 Credit rating agency**

Rating agency requires special attention. These organizations are also called credit rating agencies. Their job is to assign a credit rating. This rating shows the ability of the debtor to repay the debt and also shows the probability of future default of the debtor.

The credit rating scale is calculated according to the international or national scale. In the first case, such a rating is used in the international arena. In the second case, the rating is used exclusively for domestic comparison of ratings (Langohr, 2008).

The issuers, which are studied by the rating agencies, can be both companies engaged in entrepreneurial activity, and the official administrations of municipalities or even sovereign states. The rating contributes to the more active circulation of securities and also directly affects the interest rates on securities. The higher the rating of the issuer, the better, as a rule, its situation on the securities market (Langohr, 2008).

In addition to assessing the current situation, rating agencies also assess future development and assign a development forecast, which can be positive, stable or negative.

Due to the 2007-2008 crisis, the influence of rating agencies on the securities market has diminished significantly. The reason is that many securities that received the highest ratings from the rating agencies were devalued during the last crisis. Because of this, representatives of rating agencies were even the subject of criticism of the EU leadership. At the time of writing this master's thesis, almost the entire international market of rating agencies is controlled by three companies: Moody's Investors Service, Standard & Poor's and Fitch Ratings. All of these companies were originated in the early 20th century (CFR, 2021).

## 5 Practical Part

This chapter will provide the results of our own research. The diploma work is based mainly on data available from the Czech business register <https://or.justice.cz/ias/ui/rejstrik>.

### 5.1 Branch analysis

The Czech electronics market is a very saturated market with very strong competition. In addition, besides local firms, the market is influenced by AliExpress and Amazon which complicates the situation for local firms even more.

The Czech electronics market is a fast growing one, with sales growth of 5-10% per year. This is due to the stable political and economic situation in the Czech Republic. Thanks to this, it is observed the growing purchasing power of the population.

The barriers to entering the market are significant, and we are not talking about administrative barriers, these are marketing and financial ones. Only very big players can operate in this market.

The Czech market is represented primarily by the following brands: Alza, Mironet, Euronics, Datart, CZC and finally Mall.cz. The largest player on the market is Alza with a turnover of approximately 30 billion czk. It is followed by CZC and Mall.cz that belong to Mall Group a. s. and their turnover is approximately 18 billion czk.

The next are Euronics and Datart, which are owned by HP Tronic Zlín spol. s r. o. with 1.5 billion czk turnover. The last firm is Mironet with 0.02 billion czk turnover and is owned by Mironet.cz a.s.

Mall.cz is oriented on the sale of large household appliances, such as refrigerators, TVs, washing machines, etc. The advertisements of CZC.cz are similar to Alza and it even proclaims itself being the second in the Czech electronics market.

Datart aims at customer's demands. Amazon does not yet perceive the Czech market as one of its main sales markets. So, there are pages on its web that are not translated into the Czech language. AliExpress is of big interest for the Czech consumers, thanks to its low price and wide range of products. While Mironet is a narrow sales specialist.

## 5.2 Basic introduction Alza

Alza was founded in 1994. Four years later, the company already created its web pages, which will later become the basis of the marketing of the company. The same year, it also opened a distribution point that remains to be the main distribution point of its products until now.

The main character of the advertising of the company Alza is an alien mascot, which makes it one of the most memorable brands of Czech companies – see chart below. As a rule, absolutely everyone in the Czech Republic knows this talisman.

The advertising with the mascot is very memorable and eye-catching. On the other hand, there are people unhappy with the advertisements where this alien is present; they point out that these advertisements are too aggressive.

Chart 1. Alien mascot



Source: Alza, 2021

Throughout the history of the company, it has been emphasizing the innovation closeness to the customer. The other companies simply copied Alza's new products many times. The firm is currently owned by a group of investors who own the firm through a holding company registered in Cyprus.

The company is one of the largest Czech online stores of electronics. The company currently employs about 3.000 employees, which makes the company a significant employer.

The company not only sells electronics but also constantly expands its portfolio of services. Even now, anyone can buy on its pages books, wheels, perfumes, etc. The company's policy is structured in the right way - it understands that now it is very difficult to find a loyal customer, so it is much better to make sure that the customer can buy everything he needs in one place.

The main market for the products is the Czech Republic. The firm also operates in neighboring Austria, Hungary and Slovakia. Moreover, expansion abroad is proceeding at a gradual pace, it is not rapid and aggressive. Only after clear success in the market, the company does expand its activities there.

### **5.3 Basic introduction of HP TRONIC**

The main activity of HP TRONIC is the purchase of goods for resale, especially consumer electronics and kitchen appliances.

The company currently owns the following trademarks: Datart, Euronics, Eta and e-shops Kasa.cz and HEJ.sk. All these brands occupy one of the leading positions in the electronics market.

The company also operates in the tourism and gastronomy sector and has four hotels with wellness centers, a ski area and a golf course. In this subchapter, we will describe the three most important parts of the company - namely Datart, Euronics and Kasa.cz.

Datart is one of the major Czech and Slovak electronics stores. It has been operating on the market since 1990. In its policies, the firm has successfully used the online store and physical store. Until 2017, it was one of the main competitors in the market, but in 2021 it became known that the company will merge with its direct competitor.

It should be noted that the emergence of a new acquisition must to be approved by the state, since a monopoly on the consumer technology market may arise. The impact of this acquisition will be very well reflected in the financial statements of HP TRONIC.

Euronics has a similar strategy to Datart, it is working in the field of online sales as well as maintaining its store. The core of its success is the focus on qualitative technology. The company has a very wide range of products and also offers exclusive prices.

KASA.cz was founded in 1997. At the beginning of its operation, this company had a very aggressive strategy based on rapid penetration into the neighboring markets of the Czech Republic, mainly in Poland, Slovakia and Germany.

Once, this company was rated as one of the fastest growing companies in the Czech Republic. In 2010, the firm got into a crisis and closed all of its foreign offices. Since 2013, this company has already belonged to the researched firm.

## 5.4 Alza credit profile analysis

### 5.4.1 Horizontal and vertical analysis

The first step of the study is to conduct a horizontal and vertical analysis. Firstly, we will present the balance sheet statement and after the income statement.

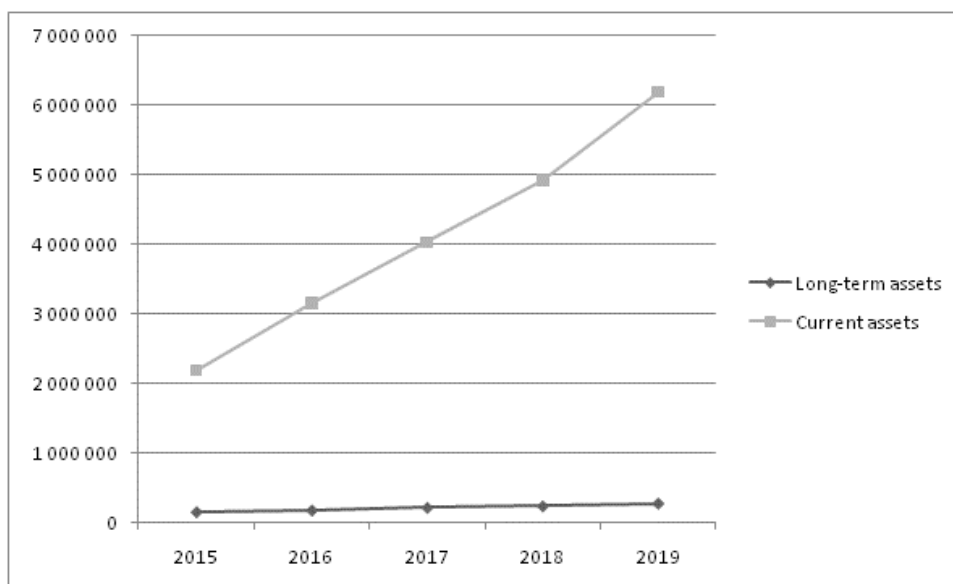
#### Balance sheet statement

The table 3 below indicates that the main types of assets of the enterprise are growing. The growth is especially noticeable in 2016/2017, and the reason is the entry of the company into neighboring markets.

Long-term assets are much lower than current assets since the company is not engaged in any production, but it is an intermediary, so the fundamental activity of its management will be to work with a warehouse.

Table 3. Long term and short-term assets of Alza in th. CZK

	2015	2016	2017	2018	2019
Long-term assets	152.354	176.456	214.146	233.994	274.237
Current assets	2.185.456	<b>3.158.815</b>	<b>4.029.998</b>	4.925.644	6.192.363
Assets	2.385.711	<b>3.418.081</b>	<b>4.936.462</b>	5.385.901	6.816.090



Source: results of own research based on annual statement report

Long-term assets do not exceed 5% of asset value. The reason was described above. As expected, the main part of the assets are Inventory and Payables. The long-term assets to current assets ratio are stable.



Table 4. Balance sheet of Alza in th. CZK., vertical analysis in %

	2015	2016	2017	2018	2019
Assets	100,000%	100,000%	100,000%	100,000%	100,000%
Long-term assets	6,386%	5,162%	4,338%	4,345%	4,023%
Current assets	91,606%	92,415%	81,637%	91,454%	90,849%
Inventory	51,469%	58,603%	55,113%	58,937%	48,315%
Payables	15,033%	11,558%	12,741%	16,117%	14,075%
Short-term financial assets	18,748%	14,737%	6,140%	6,436%	17,448%
Bank account	14,414%	13,947%	4,083%	3,466%	16,189%
Cash	4,335%	0,791%	2,057%	2,970%	1,259%

Source: results of own research based on annual statement report

The growth of parts of assets of the company is stable over time. The table 5 shows the already described growth in 2016/2017.

Table 5. Balance sheet of Alza, horizontal analysis in %

	2016	2017	2018	2019
Assets	43,27%	44,42%	9,10%	26,55%
Long-term assets	15,82%	21,36%	9,27%	17,20%
Current assets	44,54%	27,58%	22,22%	25,72%
Inventory	63,13%	35,82%	16,67%	3,74%
Payables	10,16%	59,20%	38,01%	10,52%
Short-term financial assets	12,62%	-39,83%	14,37%	243,10%
Bank account	38,63%	-57,72%	-7,38%	491,10%
Cash	-73,87%	275,71%	57,53%	-46,35%

Source: results of own research based on annual statement report

The growth in the assets in 2016/2017 was achieved in the main parts of the balance sheet of the company – in inventory and payables – see table 6. The change of inventory index was by 700 million czk and of the payables, the index was by about 200 million.

Table 6. Balance sheet of Alza in th. CZK., horizontal analysis in CZK

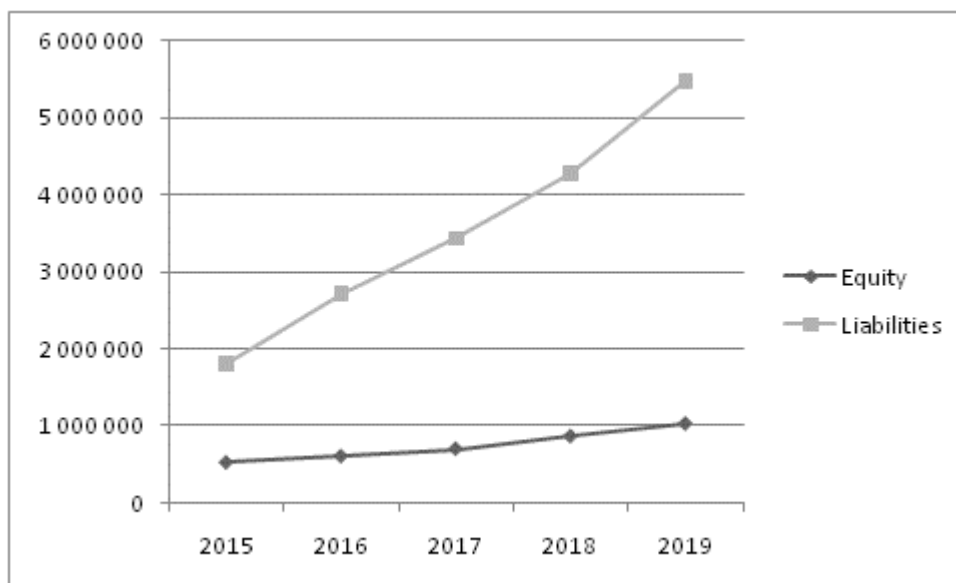
	2016	2017	2018	2019
Assets	1.032.370	1.518.381	449.439	1.430.189
Long-term assets	24.102	37.690	19.848	40.243
Current assets	<b>973.359</b>	<b>871.183</b>	895.646	1.266.719
Inventory	<b>775.219</b>	<b>717.528</b>	453.661	118.869
Payables	36.437	<b>233.896</b>	239.099	91.310
Short-term financial assets	56.461	-200.654	43.542	842.646
Bank account	132.850	-275.161	-14.872	916.788
Cash	-76.389	74.507	58.414	-74.142

Source: results of own research based on annual statement report

Equity and liabilities of the company are growing, and the growth is noticed especially in liabilities. Apparently, the management uses every year an increasingly aggressive policy aimed to use external sources of financing – see table 7.

Table 7. Equity and liabilities of Alza in th. CZK

	2015	2016	2017	2018	2019
Equity	521.891	603.966	699.271	864.088	1.024.078
Liabilities	1.809.024	2.710.311	3.434.425	4.283.073	5.474.514



Source: results of own research based on annual statement report

The change in funding sources is noticed even more, which is clearly seen in the following table 8. Thus, in 2015, the Equity was 21%, while in 2019, it was already only 15%.

Table 8. Equity and liabilities of Alza in th. CZK., vertical analysis in %

	2015	2016	2017	2018	2019
Equity and liabilities	100,000%	100,000%	100,000%	100,000%	100,000%
Equity	<b>21,876%</b>	17,670%	14,165%	16,044%	<b>15,024%</b>
Net profit	19,725%	16,567%	13,046%	15,011%	14,210%
Liabilities	75,827%	79,293%	69,573%	79,524%	80,318%
Long-term liabilities	4,185%	11,539%	1,322%	5,726%	0,000%
Short-term liabilities	71,307%	67,468%	67,896%	73,567%	80,251%
Payables	37,862%	42,874%	49,471%	53,130%	61,135%

Source: results of own research based on annual statement report

The largest percentage change happened in 2016, when long-term liabilities increased by 295% (see table 9). It is because of necessity of expanding the assembly of computers. Company needed new space for that.

Another significant increase of long term liabilities occurred in 2018. This is associated with extensive expansion into European markets - especially Hungary. The company finances its expansion with loans.

Table 9. Equity and liabilities of Alza, horizontal analysis in %

	2016	2017	2018	2019
Equity	15,73%	15,78%	23,57%	18,52%
Net profit	20,33%	13,73%	25,54%	19,80%
Liabilities	49,82%	26,72%	24,71%	27,82%
Long-term liabilities	<b>295,00%</b>	-83,45%	<b>372,47%</b>	-100,00%
Short-term liabilities	35,56%	45,34%	18,22%	38,05%
Payables	62,24%	66,64%	17,17%	45,62%
Equity and liabilities	43,27%	44,42%	9,10%	26,55%

Source: results of own research based on annual statement report

In the absolute change, it is clearly seen that the company has the biggest increase that happened in payables in 2019, which is 1.3 billion czk – see table 10. Increase is explained by expansion.

Table 10. Equity and liabilities, horizontal analysis in CZK

	2016	2017	2018	2019
Equity	82.075	95.305	164.817	159.990
Net profit	95.676	77.756	164.482	160.084
Liabilities	901.287	724.114	848.648	1.191.441
Long-term liabilities	294.549	-329.129	243.103	-308.370
Short-term liabilities	604.946	1.045.558	610.557	1.507.776
Payables	562.199	976.657	419.417	<b>1.305.446</b>
Equity and liabilities	1.032.370	1.518.381	449.439	1.430.189

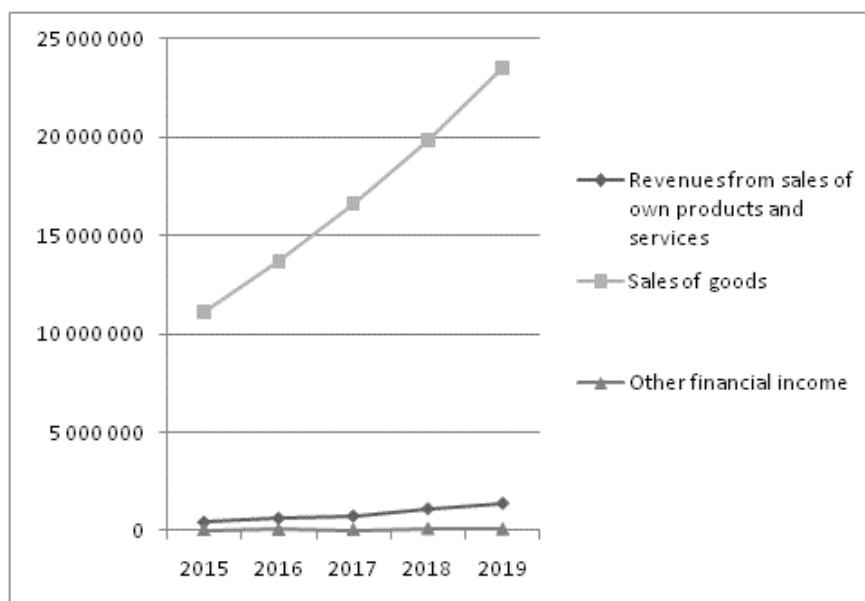
Source: results of own research based on annual statement report

## Profit and loss statement

Further, we move on to expenses and income. Among all parts of income of the firm, the most significant were selected: revenues from sales of its products and services, sales of goods and other financial income – see table 11. All major sales indicators are increasing, which is an undeniably positive sign.

Table 11. Profit and loss statement of Alza, sales analysis in CZK

	2015	2016	2017	2018	2019	Average
Revenues from sales of own products and services	405.872	611.470	728.334	1.105.744	1.391.819	848.648
Change compared to average	-442.776	611.470	728.334	1.105.744	1.391.819	
Sales of goods	11.122.226	13.677.282	16.640.473	19.848.199	23.518.340	16.961.304
Change compared to average	-5.839.078	13.677.282	16.640.473	19.848.199	23.518.340	
Other financial income	23.916	39.680	20.476	76.082	61.414	44.314
Change compared to average	-20.398	39.680	20.476	76.082	61.414	
Overall sales	11.552.014	14.328.432	17.389.283	21.030.025	24.971.573	17.854.265



Source: results of own research based on annual statement report

The profit of the company consists mainly of sales of goods. It is entirely to be expected since the firm is an intermediary between ordinary people and firms. Share of sales of goods is about 95 % - see table 12.

Table 12. Profit and loss statement of Alza, sales vertical analysis in %

	2015	2016	2017	2018	2019
Revenues from sales of own products and services	3,513%	4,268%	4,188%	5,258%	5,574%
Sales of goods	96,280%	95,456%	95,694%	94,380%	94,180%
Other financial income	0,207%	0,277%	0,118%	0,362%	0,246%
Overall sales	100,000%	100,000%	100,000%	100,000%	100,000%

Source: results of own research based on annual statement report

It should be noted that all indicators of the income of the firm are growing at a steady pace.

Table 13. Profit and loss statement of Alza, sales vertical analysis in CZK

	2016	2017	2018	2019
Revenues from sales of own products and services	205.598	116.864	377.410	286.075
Sales of goods	2.555.056	2.963.191	3.207.726	3.670.141
Other financial income	15.764	-19.204	55.606	-14.668
Overall sales	23.347.024	6.140.906	7.225.878	7.897.764

Source: results of own research based on annual statement report

The above statement also applies to relative changes measured in percent – see table 14.

Table 14. Profit and loss statement of Alza, sales horizontal analysis in %

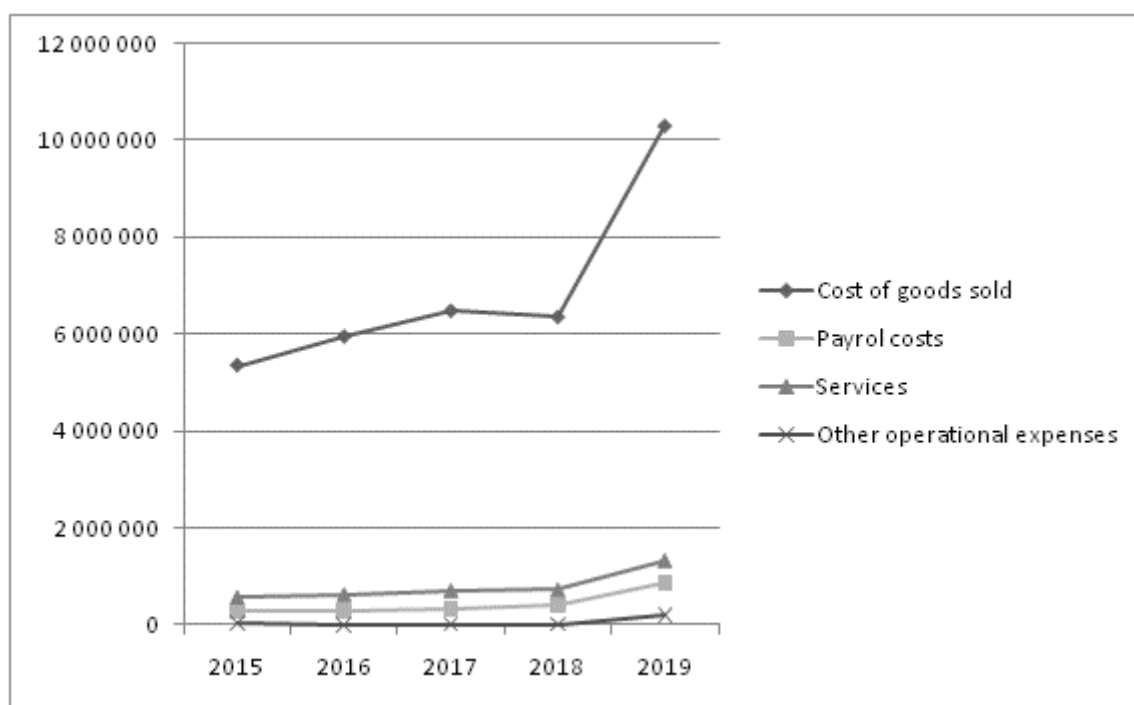
	2016	2017	2018	2019
Revenues from sales of own products and services	50,656%	19,112%	51,818%	25,872%
Sales of goods	22,973%	21,665%	19,277%	18,491%
Other financial income	65,914%	-48,397%	271,567%	-19,279%
Overall sales	443,004%	21,459%	20,789%	18,811%

Source: results of own research based on annual statement report

Now, it is necessary to analyze the expenses of the company. Same as in the case of revenues, the most important costs for the company were selected: cost of goods sold, payroll costs and services – see table 15. All incomes are growing, which of course is associated with growing turnover.

Table 15. Profit and loss statement of Alza, cost analysis in CZK

	2015	2016	2017	2018	2019	AVG
Cost of goods sold	5.340.254	5.932.983	6.463.312	6.338.842	10.291.704	6.873.419
Change compared to average	-1.533.165	5.932.983	6.463.312	6.338.842	10.291.704	
Payroll costs	268.326	292.318	336.651	394.389	870.908	432.518
Change compared to average	-164.192	292.318	336.651	394.389	870.908	
Services	561.419	617.617	704.656	723.260	1.335.130	788.416
Change compared to average	-226.997	617.617	704.656	723.260	1.335.130	
Other operational expenses	34.317	6.008	7.391	12.553	200.966	52.247
Change compared to average	-17.930	6.008	7.391	12.553	200.966	
Overall	6.204.316	6.848.926	7.512.010	7.469.044	12.698.708	8.146.601



Source: results of own research based on annual statement report

The most important part of the cost is the cost of goods sold at 80% - see table 16. It directly comes from the activities of the company.

Table 16. Profit and loss statement of Alza, cost vertical analysis in %

	2015	2016	2017	2018	2019
Cost of goods sold	<b>86,073%</b>	<b>86,626%</b>	<b>86,040%</b>	<b>84,868%</b>	<b>81,045%</b>
Payroll costs	4,325%	4,268%	4,482%	5,280%	6,858%
Services	9,049%	9,018%	9,380%	9,683%	10,514%
Other operational expenses	0,553%	0,088%	0,098%	0,168%	1,583%
Overall	100,000%	100,000%	100,000%	100,000%	100,000%

Source: results of own research based on annual statement report

The largest increase in costs is noted in 2019, which is due to the increased activity in new markets, mainly Hungary and Slovakia – see table 17.

Table 17. Profit and loss statement of Alza, cost horizontal analysis in CZK

	2016	2017	2018	2019
Cost of goods sold	592.729	530.329	-124.470	3.952.862
Payroll costs	23.992	44.333	57.738	<b>476.519</b>
Services	56.198	87.039	18.604	611.870
Other operational expenses	-28.309	1.383	5.162	<b>188.413</b>
Overall	9.429.813	1.324.785	-78.541	<b>10.459.328</b>

Source: results of own research based on annual statement report

The percentage change in spending in 2019 is not that big – see table 18. Here, on the contrary, the growth is observed in 2019 in other operational expenses. Further, there is an increase in employee costs in 2019, which happened because the company will significantly expand its staff of IT specialists in order to personalize the web pages.

Table 18. Profit and loss statement of Alza, cost horizontal analysis in %

	2016	2017	2018	2019
Cost of goods sold	11,10%	8,94%	-1,93%	62,36%
Payroll costs	8,94%	15,17%	17,15%	120,82%
Services	10,01%	14,09%	-44,03%	120,82%
Other operational expenses	-82,49%	23,02%	69,84%	1500,94%
Overall	221,25%	9,68%	-0,52%	70,02%

Source: results of own research based on annual statement report



## 5.4.2 Ratio analysis

This subchapter will present the analysis of the Ratio based on the indicators of Activity ratio, Liquidity ratio, Rentability ratio and Debt ratio, following the methodology written in the theoretical part of the diploma work.

### Activity ratio

The first type of analysis is how effective the company uses its assets. It is assumed that the more effective the firm uses its assets, the higher will be all the indices. The table shows that the tendency of using its assets is gradually slowing down.

While in 2015 assets were used 4.84 times a year, then in 2019 this number did not even reach 4 and is equal to 3.66 – see table 19. In other words, the assets of the firm are currently changing every 99.63 days, while back in 2015 this number was 75.38. This is undeniably a negative finding. Moreover, this indicator decreased for both inventory and fixed asset.

Table 19. Activity ratio of Alza

	2015	2016	2017	2018	2019
Total assets turnover	<b>4,84</b>	4,19	3,52	3,90	<b>3,66</b>
Total assets turnover (days)	<b>75,38</b>	87,07	103,62	93,48	<b>99,63</b>
Inventory turnover	9,41	7,15	6,39	6,63	7,58
Inventory turnover (days)	38,80	51,03	57,11	55,09	48,13
Fixed assets turnover ratio	75,82	81,20	81,20	89,87	91,06

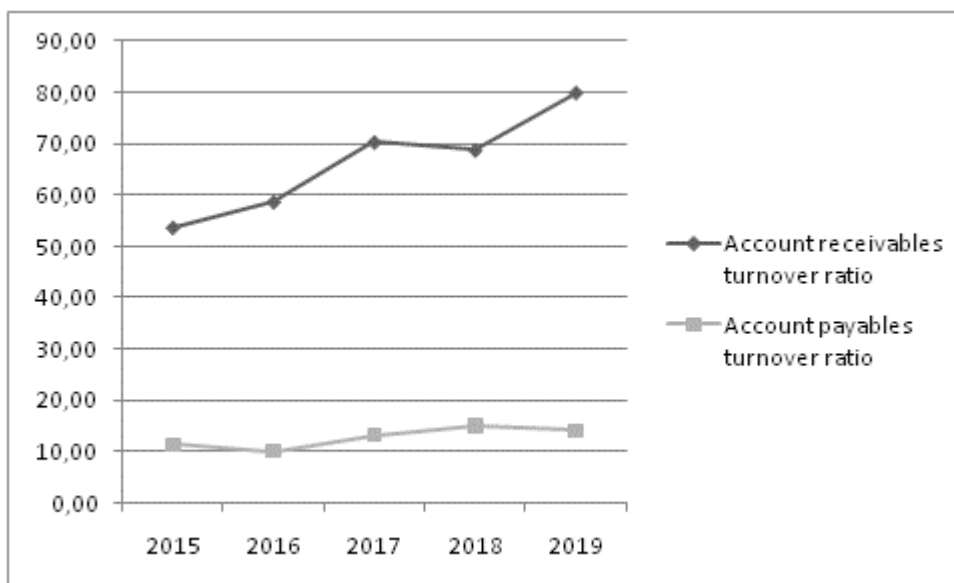
Source: results of own research based on annual statement report

The key indicator of the activity is the comparison of turnover receivables and payables. In the first case, the company should receive money as quickly as possible, and in the second case, it is better to postpone payments for as long as possible.

As seen in the table 20, the firm, unfortunately, does that and it pays its debts every 14 days, whereas it receives payments for its goods every 80 days. The chart below clearly shows that there is a serious increase in the receivables turnover ratio, which is not a positive sign for the firm.

Table 20. Receivables and payables turnover of Alza

	2015	2016	2017	2018	2019
Account receivables turnover ratio	<b>53,75</b>	58,75	70,35	68,77	<b>79,95</b>
Account payables turnover ratio	11,33	10,06	13,20	15,07	<b>14,02</b>



Source: results of own research based on annual statement report

### Liquidity ratio

Liquidity represents the ability of a company to have sufficient liquid capital to cover, above all, its short-term liabilities. In other words, the firm must be financially independent to cover its day to day and operational expenses. As indicated in the table 21, the company's liquidity is at a good level. Currently, current assets exceed current liabilities by a ratio of 1,2. It means the company has sufficient liquid assets.

Table 21. Liquidity ratio of Alza

	2015	2016	2017	2018	2019
Current ratio	1,313	1,406	1,409	1,300	<b>1,196</b>
Quick ratio	1,113	0,845	0,820	0,691	0,780
Cash ratio	0,061	0,012	0,030	0,040	0,016

Source: results of own research based on annual statement report

## Rentability ratio

The following index is, of course, the most important for investors and firm owners. As you can see from the table 22, the equity profitability is approaching 100%, which is not logic as the company cannot have such extremes for 5 years. This can be explained by the net profit or by the very low equity. ROA and ROS are in a fairly logical range.

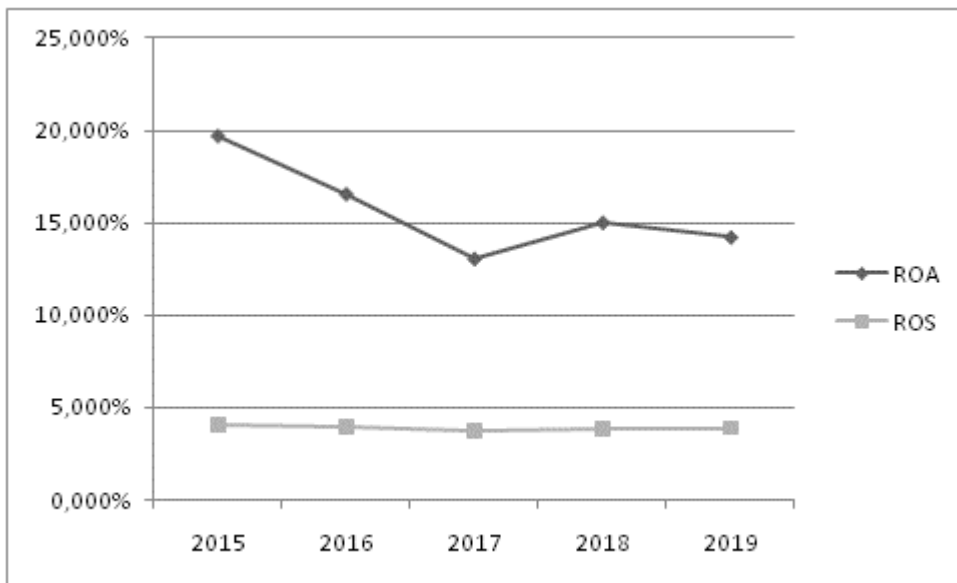
Table 22. Rentability ratio of Alza

	2015	2016	2017	2018	2019
ROE	<b>90,169%</b>	<b>93,757%</b>	<b>92,098%</b>	<b>93,567%</b>	<b>94,581%</b>
ROA	19,725%	16,567%	13,046%	15,011%	14,210%
ROS	4,074%	3,952%	3,704%	3,844%	3,879%

Source: results of own research based on annual statement report

Let's have a look at the result of ROA and ROS in one chart where we can observe a partial fall of both indexes – see chart 2.

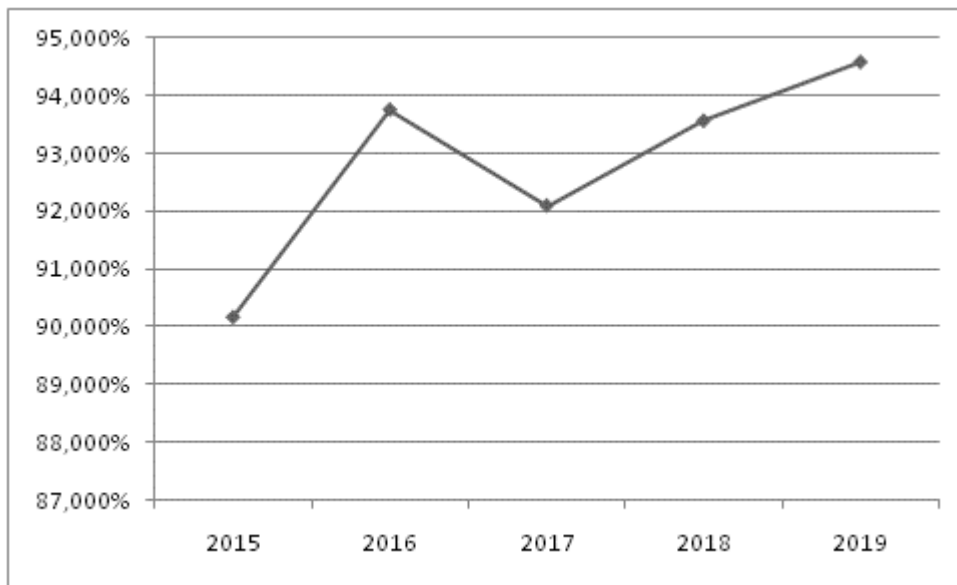
Chart 2. ROA and ROS of Alza in %



Source: results of own research based on annual statement report

The chart for ROE has been drawn separately because the value is extremely high – see chart 3.

Chart 3. ROE of Alza in %



Source: results of own research based on annual statement report

### Debt ratio

As shown in the table 23 there is a gradual substitution of equity by debt. Back in 2015, debt exceeded equity by about 3.5 times, whereas now it is already 5.34. It is becoming clear that management is funding the activities of the firm through debt more and more. The influence of equity, on the overall structure of the company's financing, stays the same and is about 15%.

Table 23. Debt ratio of Alza

	2015	2016	2017	2018	2019
Debt ratio I	0,758	0,793	0,696	0,795	0,803
Debt ratio II	<b>3,466</b>	4,488	4,911	4,957	<b>5,346</b>
Debt ratio III	0,219	0,177	0,142	0,160	<b>0,150</b>

Source: results of own research based on annual statement report

### 5.4.3 Altman Z-Score and Kralicek Quick-test

#### Z-score test

Finally, we can proceed to the final indexes, which provide an overall analysis of the company. The table number 24 contains the data needed for subsequent calculations.

Table 24. Input for Z-score test calculation of Alza

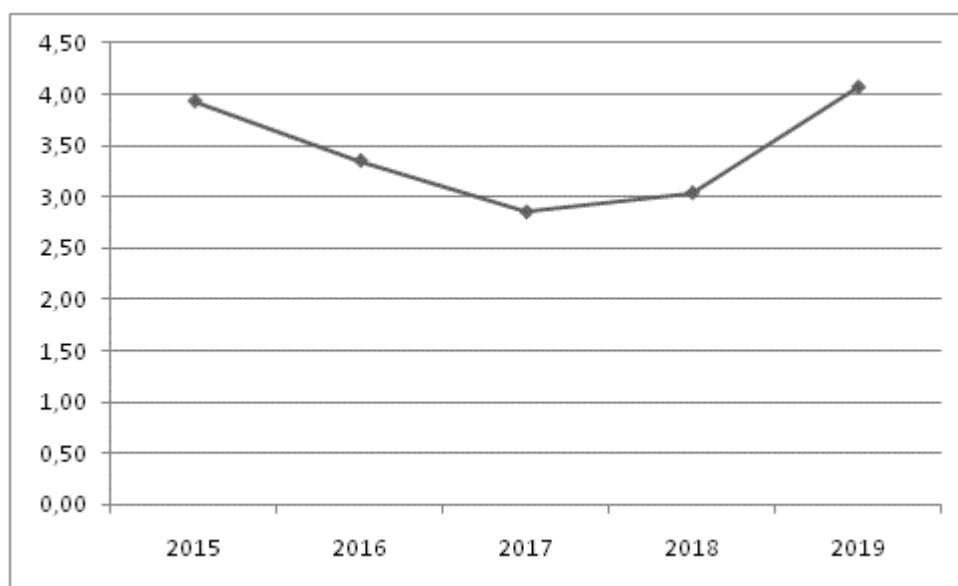
	2015	2016	2017	2018	2019
Working capital	484.279	852.692	678.317	963.406	722.349
Assets	2.385.711	3.418.081	4.936.462	5.385.901	6.816.090
Net profit	470.584	566.260	644.016	808.498	968.582
Assets	2.385.711	3.418.081	4.936.462	5.385.901	6.816.090
EBIT	626.892	1.311.489	852.506	1.058.503	1.311.469
Equity	521.891	603.966	699.271	864.088	1.024.078
Sales	11.552.014	14.328.432	17.389.283	21.030.025	24.971.573

Source: results of own research based on annual statement report

The following step is to use the formula and calculate the final indicator. The final calculation indicates that Bankruptcy is not likely – see table 25. But in 2017, the firm was in the Gray Zone. The results are, of course, positive.

Table 25. Results of Z-score test calculation of Alza

	2015	2016	2017	2018	2019	Average
Z-score	3,93	3,35	2,86	3,04	4,06	<b>3,45</b>
Result	Bankrupt is not likely	Bankrupt is not likely	<b>Grey zone</b>	Bankrupt is not likely	Bankrupt is not likely	Bankrupt is not likely



Source: results of own research based on annual statement report

### Kralicek quick test

Further, it is necessary to calculate and comment on the Kralicek quick test. The table 26 gives the data that will later be used to calculate the Kralicek test. Here again, we should underline the fact the Sales of the company are growing faster.

Table 26. Input for Kralicek quick test calculation of Alza in CZK

	2015	2016	2017	2018	2019
Equity	521.891	603.966	699.271	864.088	1.024.078
Assets	2.385.711	3.418.081	4.936.462	5.385.901	6.816.090
Debt	1.809.024	2.710.311	3.434.425	4.283.073	5.474.514
Cash	447.278	503.739	303.085	346.627	1.189.273
Cash flow	100.587	842.916	-200.654	43.542	842.714
Sales	11.552.014	14.328.432	17.389.283	21.030.025	24.971.573

Source: results of own research based on annual statement report

Below are given (see table 27) the calculation results for all years and the last column presents the average results for all years.

Table 27. Results of Kralicek quick test calculation of Alza

	2015	2016	2017	2018	2019	Average
R1	0,219	0,177	0,142	0,160	0,150	<b>0,183</b>
R2	13,538	2,618	-15,606	90,406	5,084	<b>16,657</b>
R3	0,009	0,059	-0,012	0,002	0,034	<b>0,019</b>
R4	0,263	0,384	0,173	0,197	0,192	<b>0,251</b>

Source: results of own research based on annual statement report

It remains to fill in the table given in the theoretical part. It cannot be stated unequivocally what is the current state of the firm by analyzing only this index. 2 out of 5 indexes are rated as Insufficient, but the R4 index is in the highest position – see table 28.

Table 28. Kralicek Quick-test for Alza, initial evaluation of results

	Excellent	Very good	Good	Insufficient	Dangerous
R1			X		
R2				X	
R3				X	
R4	X				

Source: results of own research based on annual statement report

The next step is the calculation of the index, that according to the tables turns out that the company has 2 points – see table 29. Based on theory, we can affirm that the company does not face bankruptcy and is worth investing in.

Table 29. Kralicek quick-test for Alza, final evaluation

Index $R_x$	Result of index $R_x$	Number of gained points
R1	0,183	2
R2	16,657	1
R3	0,019	1
R4	0,251	4

Source: results of own research based on annual statement report

#### 5.4.4 Credit profile of Alza

This subchapter will introduce the positive and negative aspects of the firm's credit rating, which are based on the results of our research. The company's credit rating of the company is very high, this is due to:

- Leading position in the Czech market,
- Portfolio diversification,
- Expansion abroad has started,
- Positive results of Z-score test and Kralicek quick test calculations.

Firstly, the firm is a leader in the Czech electronics market. It is keeping this position for more than one year thanks to the rapidly growing turnover. This is facilitated by the competent marketing of the company. Moreover, the Czech electronics market is in a phase of rapid growth.

Additionally, the firm has many products in its portfolio, which reduces its entrepreneurial risks. Also, the company is not only increasing the variety of electrical products but also is working towards such new areas as perfumes, hobbies, toys, etc.

The company has successfully entered the markets adjacent to the Czech Republic and is already working effectively there. Hence, the Czech market is still its key market, and even if its activity in Hungary, Slovakia, etc. is not successful, the company can always return to the Czech Republic.

The calculations of the Z-score test and the Kralicek quick test revealed a stable financial situation, which can be a significant advantage in the case of an evaluation of the company credit profile.

Conversely, its credit rating is negatively affected by: the possibility of strengthening the position of AliExpress and Amazon in the local market and the growth of the debts of the firm.

There is a probability that such giants as AliExpress and Amazon become interested in the Czech market. As a result, local firms can face certain difficulties. This scenario is very possible, for example, as recently happened in the bus passenger transport market, when Flixbus entered the Czech market.



Further, the company has a very rapidly growing debt, which can reduce its credit profile. The growth of the debt has been observed in the last years of the study, which may point to changes in the financial management of the company.

## 5.5 HP Tronic Zlín spol. s r. o.

The results of the research of the next company, HP Tronic Zlín spol. s r. o., are present in this chapter.

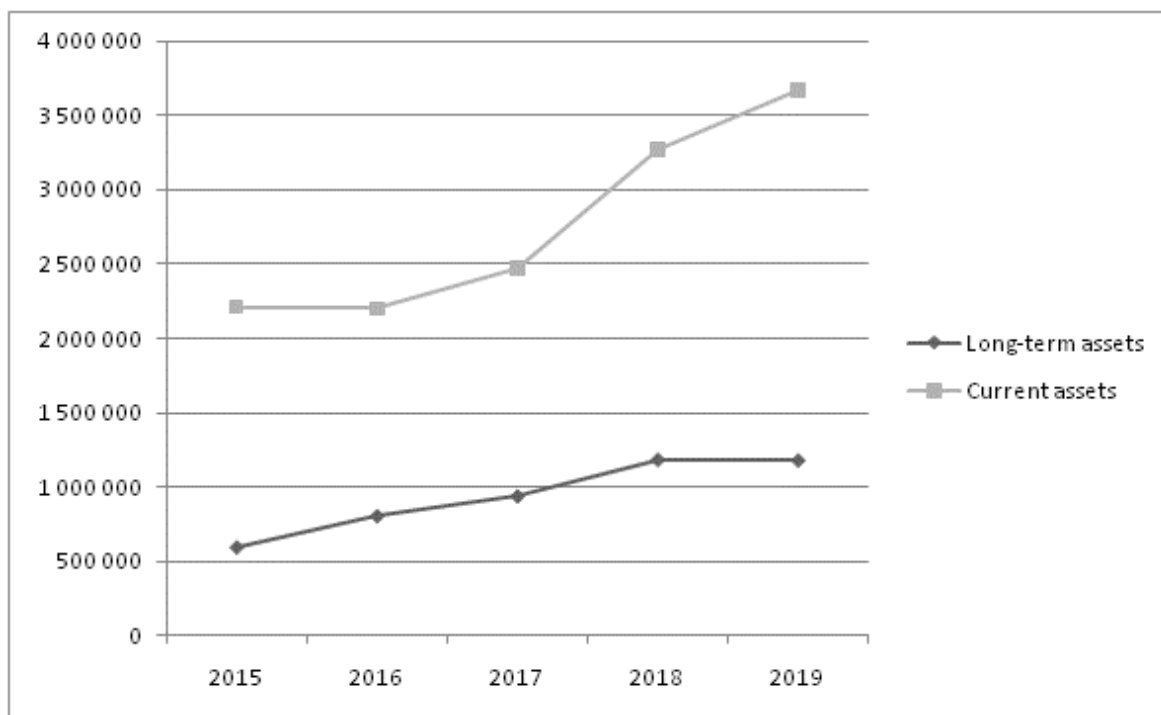
### 5.5.1 Horizontal and vertical analysis

#### Balance sheet statement

The first company indicator is the Long term and short-term assets. The table 30 indicates a noticeable increase in both indicators, especially in 2018. It is due to the merge with the firm DATART that happened the same year. Therefore, all of the firm's assets have doubled.

Table 30. Long term and short-term assets of HP Tronic Zlín in th. CZK

	2015	2016	2017	2018	2019
Long-term assets	596.793	806.253	938.840	<b>1.182.843</b>	1.178.179
Current assets	2.210.523	2.199.949	2.476.343	3.270.407	3.670.408
Assets	2.952.898	3.163.369	3.585.949	4.617.540	5.029.353



Source: results of own research based on annual statement report

The main influence on the assets of the company is quite predictable to have current assets – see table 31. Likewise, in the previous firm, this is associated with Inventory and Payables. The explanation is very the same as it was with Alza– the firms are intermediary and buy goods for further sale.

Table 31. Balance sheet of HP Tronic Zlín in th. CZK., vertical analysis in %

	2015	2016	2017	2018	2019
Assets	100,000%	100,000%	100,000%	100,000%	100,000%
Long-term assets	20,210%	25,487%	26,181%	25,616%	23,426%
Current assets	<b>74,859%</b>	<b>69,544%</b>	<b>69,057%</b>	<b>70,826%</b>	<b>72,980%</b>
Inventory	37,234%	40,271%	42,978%	46,480%	48,628%
Payables	34,374%	27,316%	19,912%	18,675%	16,252%
Short-term financial assets	3,689%	1,958%	6,166%	3,393%	5,288%
Bank account	2,436%	1,396%	5,500%	2,920%	4,773%
Cash	1,253%	0,562%	0,667%	0,472%	0,515%

Source: results of own research based on annual statement report

The percentage changes in the Balance sheet are quite predictable, and there are no spikes in the main indicators of this financial document – see table 32.

Table 32. Balance sheet of HP Tronic Zlín, horizontal analysis in %

	2016	2017	2018	2019
Assets	7,128%	13,359%	28,768%	8,918%
Long-term assets	35,098%	16,445%	25,990%	-0,394%
Current assets	-0,478%	12,564%	32,066%	12,231%
Inventory	15,863%	20,980%	39,260%	13,953%
Payables	-14,870%	-17,365%	20,765%	-5,211%
Short-term financial assets	-43,130%	256,962%	-29,158%	69,779%
Bank account	-38,585%	346,486%	-31,622%	78,016%
Cash	-51,963%	34,522%	-8,836%	18,829%

Source: results of own research based on annual statement report

The same is with changes in relative indexes. As shown in the table 33 everything is pretty predictable.

Table 33. Balance sheet of HP Tronic Zlín in th. CZK, horizontal analysis in CZK

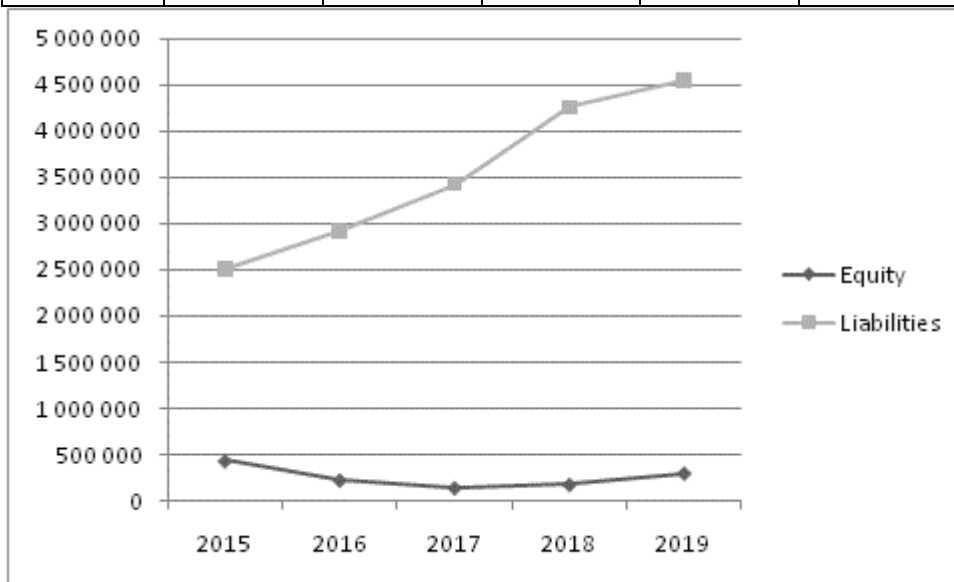
	2016	2017	2018	2019
Assets	210.471	422.580	1.031.591	411.813
Long-term assets	209.460	132.587	244.003	-4.664
Current assets	-10.574	276.394	794.064	400.001
Inventory	174.414	267.268	605.064	299.460
Payables	-150.937	-150.054	148.272	-44.932
Short-term financial assets	-46.980	159.180	-64.476	109.309
Bank account	-27.750	153.043	-62.363	105.204
Cash	-19.230	6.137	-2.113	4.105

Source: results of own research based on annual statement report

Further, we proceed to the analysis of the sources of financing for the company. The table 34 indicates the firm mainly uses debt as a source of its financing. There is also see a decrease in Equity, which is associated with the above acquisition.

Table 34. Equity and liabilities of HP Tronic Zlín in th. CZK

	2015	2016	2017	2018	2019
Equity	436.812	226.251	143.922	178.917	303.838
Liabilities	2.504.314	2.918.451	3.426.119	4.255.079	4.552.049



Source: results of own research based on annual statement report

The share of Liabilities is about 90%. It is necessary to underline the growth of long-term liabilities, which is mainly the company's debts used for further development – see table 35. Basically, it is about non-bank debts, for example, Nobium s.a.r.l., HPT investiční fond or EURONICS ČR a.s.

Table 35. Equity and liabilities of HP Tronic Zlín in th. CZK., vertical analysis in %

	2015	2016	2017	2018	2019
Equity and liabilities	100.000%	100.000%	100.000%	100.000%	100.000%
Equity	14.793%	7.152%	4.013%	3.875%	6.041%
Net profit	1,422%	1,931%	0,917%	-1,825%	2,301%
Liabilities	<b>84,809%</b>	<b>92,258%</b>	<b>95,543%</b>	<b>92,150%</b>	<b>90,510%</b>
Long-term liabilities	3,529%	9,167%	12,371%	11,417%	8,793%
Short-term liabilities	64,814%	82,750%	83,171%	80,360%	81,394%
Payables	57,552%	68,950%	65,014%	65,481%	73,327%

Source: results of own research based on annual statement report

The percentage change is pretty clear. It consists of the year 2018 when the net profit was negative – see table 36.

Table 36. Equity and liabilities of HP Tronic Zlín, horizontal analysis in %

	2016	2017	2018	2019
Equity	-48,204%	-36,388%	24,315%	69,821%
Net profit	45,468%	-46,157%	<b>-356,260%</b>	-237,278%
Liabilities	16,537%	17,395%	24,195%	6,979%
Long-term liabilities	178,262%	52,987%	18,835%	-16,115%
Short-term liabilities	36,772%	13,936%	1,378%	10,319%
Payables	19,804%	14,507%	29,691%	21,969%
Equity and liabilities	7,128%	13,359%	28,768%	8,918%

Source: results of own research based on annual statement report

The absolute changes in Equity and liabilities are very predictable – see table 37. The reason of the change in net profit was given above.

Table 37. Equity and liabilities, horizontal analysis in CZK

	2016	2017	2018	2019
Equity	-210.561	-82.329	34.995	124.921
Net profit	19.093	-28.195	-117.174	199.987
Liabilities	414.137	507.668	828.960	296.970
Long-term liabilities	185.770	153.653	83.560	-84.959
Short-term liabilities	703.786	364.805	728.177	382.912
Payables	336.557	295.370	692.214	664.268
Equity and liabilities	210.471	422.580	1.031.591	411.813

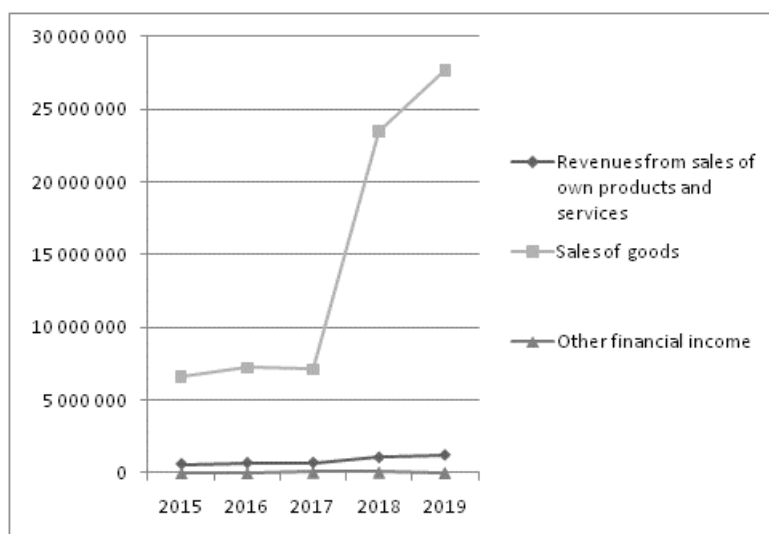
Source: results of own research based on annual statement report

## Profit and loss statement

The same as for Alza only main parts of PL statement were chosen. There is a very strong increase in sales indicators since 2018 (see table 38), which is due to the acquisition described above. After the acquisition, the company's turnover continues to grow rapidly.

Table 38. Profit and loss statement of HP Tronic Zlín, sales analysis in CZK

	2015	2016	2017	2018	2019	Average
Revenues from sales of own products and services	582.350	656.955	671.348	1.044.496	1.212.766	833.583
Change compared to average	-251.233	-176.628	-162.235	210.913	379.183	
Sales of goods	6.577.021	7.224.937	7.102.640	<b>23.518.340</b>	<b>27.654.288</b>	<b>14.415.445</b>
Change compared to average	-7.838.424	-7.190.508	-7.312.805	9.102.895	13.238.843	
Other financial income	2.438	988	41.026	43.437	18.074	21.193
Change compared to average	-18.755	-20.205	19.833	22.244	-3.119	833.583
Overall sales	7.161.809	7.882.880	7.815.014	24.606.273	28.885.128	



Source: results of own research based on annual statement report

The average profit growth is around 5% - see table 39. There is also observed a very rapid growth in sales of goods and this index doubles almost every year. It suggests that the services of the firm are in great demand among consumers. Typical services of the company in this area are the following: mobile device insurance, transport, professional installation, PC services and extended warranty insurance.

Table 39. Profit and loss statement of HP Tronic Zlín, sales vertical analysis in %

	2015	2016	2017	2018	2019
Revenues from sales of own products and services	8,131%	8,334%	8,590%	4,245%	4,199%
Sales of goods	91,835%	91,654%	90,885%	95,579%	95,739%
Other financial income	0,034%	0,013%	0,525%	0,177%	0,063%
Overall sales	100,000%	100,000%	100,000%	100,000%	100,000%

Source: results of own research based on annual statement report

There are noticed growth in all areas of sales in the following table 40.

Table 40. Profit and loss statement of HP Tronic Zlín, sales vertical analysis in CZK

	2016	2017	2018	2019
Revenues from sales of own products and services	74.605	14.393	373.148	168.270
Sales of goods	647.916	-122.297	16.415.700	4.135.948
Other financial income	-1.450	40.038	2.411	-25.363
Overall sales	721.071	-67.866	16.791.259	4.278.855

Source: results of own research based on annual statement report

The situation is similar to the previous firm, almost all of the company's sales consist of the sale of goods purchased from other firms – see table 41.

Table 41. Profit and loss statement of HP Tronic Zlín, sales horizontal analysis in %

	2016	2017	2018	2019
Revenues from sales of own products and services	8,334%	8,590%	4,245%	4,199%
Sales of goods	91,654%	90,885%	95,579%	95,739%
Other financial income	0,013%	0,525%	0,177%	0,063%
Overall sales	100,000%	100,000%	100,000%	100,000%

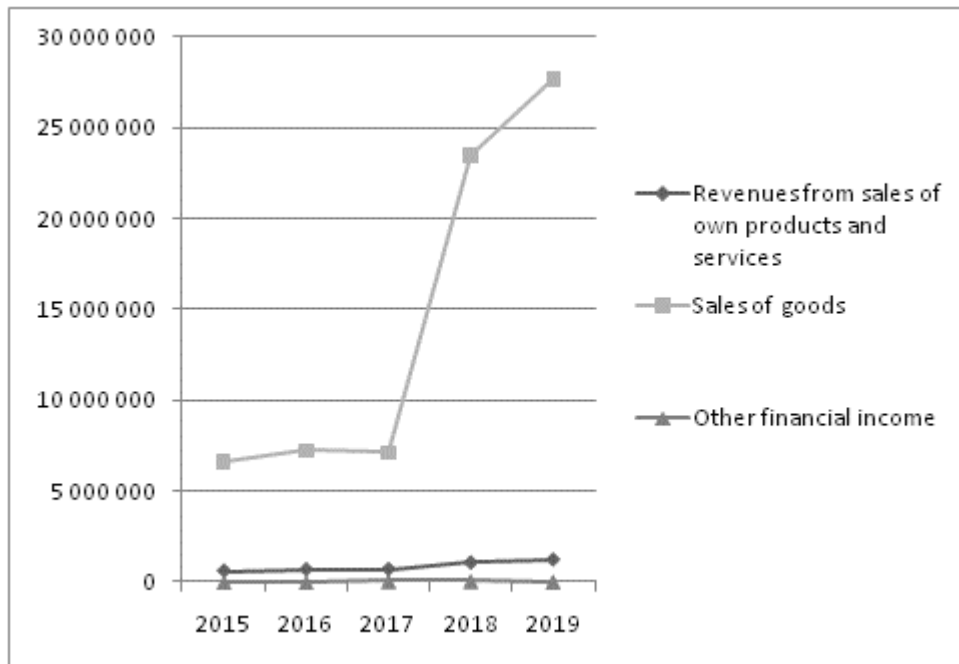
Source: results of own research based on annual statement report

The growth in sales had an impact on the growth of expenses related to the sale of goods – see table 42. Remarkable is the fact that thanks to the acquisition, the company was able to save on payroll costs, which is a good example of effective financial management: duplicity work activities were eliminated.



Table 42. Profit and loss statement of HP Tronic Zlín, cost analysis in CZK

	2015	2016	2017	2018	2019	AVG
Cost of goods sold	5.932.983	6.463.312	6.338.842	20.221.583	23.493.842	12.490.112
Change compared to average	-6.557.129	-6.026.800	-6.151.270	7.731.471	11.003.730	
Payroll costs	400.630	460.341	540.330	746.855	901.629	609.957
Change compared to average	-209.327	-149.616	-69.627	136.898	291.672	
Services	617.617	704.656	723.260	2.373.031	3.186.104	1.520.934
Change compared to average	-903.317	-816.278	-797.674	852.097	1.665.170	
Other operational expenses	18.892	17.933	18.854	126.642	81.531	52.770
Change compared to average	-33.878	-34.837	-33.916	73.872	28.761	
Overall	6.970.122	7.646.242	7.621.286	23.468.111	27.663.106	14.673.773



Source: results of own research based on annual statement report

The cost structure is almost entirely dependent on the sale of goods – see table 43. Again, the work of the management should be marked, who after the acquisition was able to reallocate successfully the human resources. As a result, the impact of expenses on employees decreased in the overall structure of expenses from 5-6% to 3%.

Table 43. Profit and loss statement of HP Tronic Zlín, cost vertical analysis in %

	2015	2016	2017	2018	2019
Cost of goods sold	85,120%	84,529%	83,173%	86,166%	84,928%
Payroll costs	<b>5,748%</b>	6,020%	7,090%	3,182%	<b>3,259%</b>
Services	8,861%	9,216%	9,490%	10,112%	11,518%
Other operational expenses	0,271%	0,235%	0,247%	0,540%	0,295%
Overall	100,000%	100,000%	100,000%	100,000%	100,000%

Source: results of own research based on annual statement report

Complete changes in costs are consistent with the firm's policy and are quite expected from the side of financial analysis – see table 44.

Table 44. Profit and loss statement of HP Tronic Zlín, cost horizontal analysis in CZK

	2016	2017	2018	2019
Cost of goods sold	530.329	-124.470	13.882.741	3.272.259
Payroll costs	59.711	79.989	206.525	154.774
Services	87.039	18.604	1.649.771	813.073
Other operational expenses	-959	921	107.788	-45.111
Overall	530.329	-124.470	13.882.741	3.272.259

Source: results of own research based on annual statement report

The percentage of changes in costs are foreseeable and in line with the trend described above – see table 45.

Table 45. Profit and loss statement of HP Tronic Zlín, cost horizontal analysis in %

	2016	2017	2018	2019
Cost of goods sold	8,94%	-1,93%	219,01%	16,18%
Payroll costs	14,90%	17,38%	38,22%	20,72%
Services	14,09%	2,64%	3,26%	20,72%
Other operational expenses	-5,08%	5,14%	571,70%	-35,62%
Overall	9,70%	-0,33%	207,93%	17,88%

Source: results of own research based on annual statement report

### 5.5.2 Ratio analysis

After conducting a general financial analysis of the enterprise, we proceed to the Ratio analysis.

#### Activity ratio

The total assets turnover is constantly increasing, and the increase has a very fast pace. For instance, in 2015, the assets changed at a rate of 2,43 times a year, while in 2019, it was already almost twice as much as, 5,74 times a year – see table 46.

Now the assets turnover is a period of almost two months. That is, the company's goods are not kept at the warehouse for a long time, they are quickly sent to the buyers, which, of course, will have a positive effect on other indicators.

The main reason for the growth of assets turnover is Inventory turnover. Currently, all goods are changed within the period of only a month. The fixed assets turnover ratio is also increasing, and in the last year, it reached 24,52, while in 2015, it was 12.

Table 46. Activity ratio of HP Tronic Zlín

	2015	2016	2017	2018	2019
Total assets turnover	<b>2,43</b>	2,49	2,18	5,33	<b>5,74</b>
Total assets turnover (days)	<b>150,49</b>	146,47	167,48	68,49	<b>63,55</b>
Inventory turnover	6,51	6,19	5,07	11,46	11,81
Inventory turnover (days)	56,04	58,99	71,98	31,84	30,90
Fixed assets turnover ratio	<b>12,00</b>	9,78	8,32	20,80	<b>24,52</b>

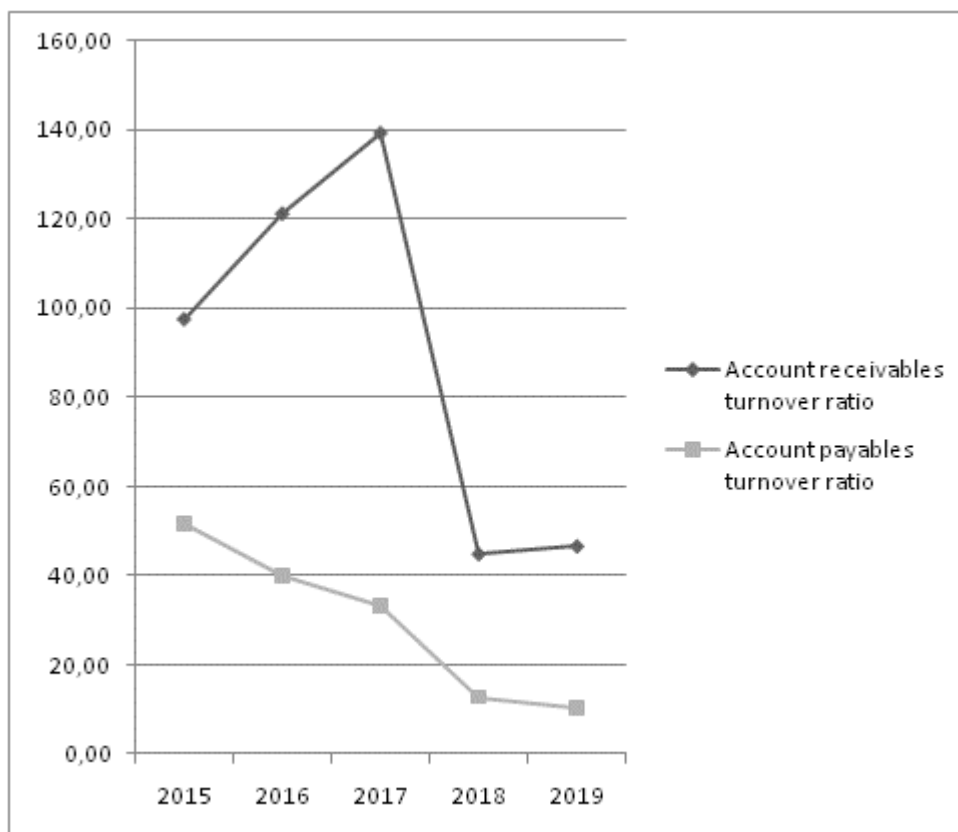
Source: results of own research based on annual statement report

The company should be praised for the receivables and payables turnover – see table 47. The company received payment for debts in 2015 once every 97,54 days, while it paid its debts once every 51.73 days. That is, the difference between payment and money receipt was 45,81 days, which is a big difference, and it negatively affects the management of cash flow.

Nowadays, the firm pays its debts every 10.33 days and, on the contrary, receives payments from its debtors every 46,6 days. That is, the actual difference is 36,27 days. This situation is better illustrated in the graph below.

Table 47. Receivables and payables turnover of HP Tronic Zlín

	2015	2016	2017	2018	2019
Account receivables turnover ratio	97,54	121,21	139,30	44,85	<b>46,60</b>
Account payables turnover ratio	51,73	40,01	33,35	12,79	<b>10,33</b>



Source: results of own research based on annual statement report

### Liquidity ratio

The firm can undoubtedly pay all its debts. The amount of its current assets exceeds the number of its operating debts – see table 48. All liquidity indexes are constant over time, which indicates its stable financial management.

Table 48. Liquidity ratio of HP Tronic Zlín

	2015	2016	2017	2018	2019
Current ratio	1,231	0,900	0,888	1,136	1,044
Quick ratio	0,739	0,532	0,474	0,426	0,381
Cash ratio	0,019	0,007	0,008	0,007	0,007

Source: results of own research based on annual statement report

## Rentability ratio

The rentability ratios of the company are very unstable – see table 49. For example, the ROE indicator ranges from -47% to 38%. It is specially related to the unstable net profit value.

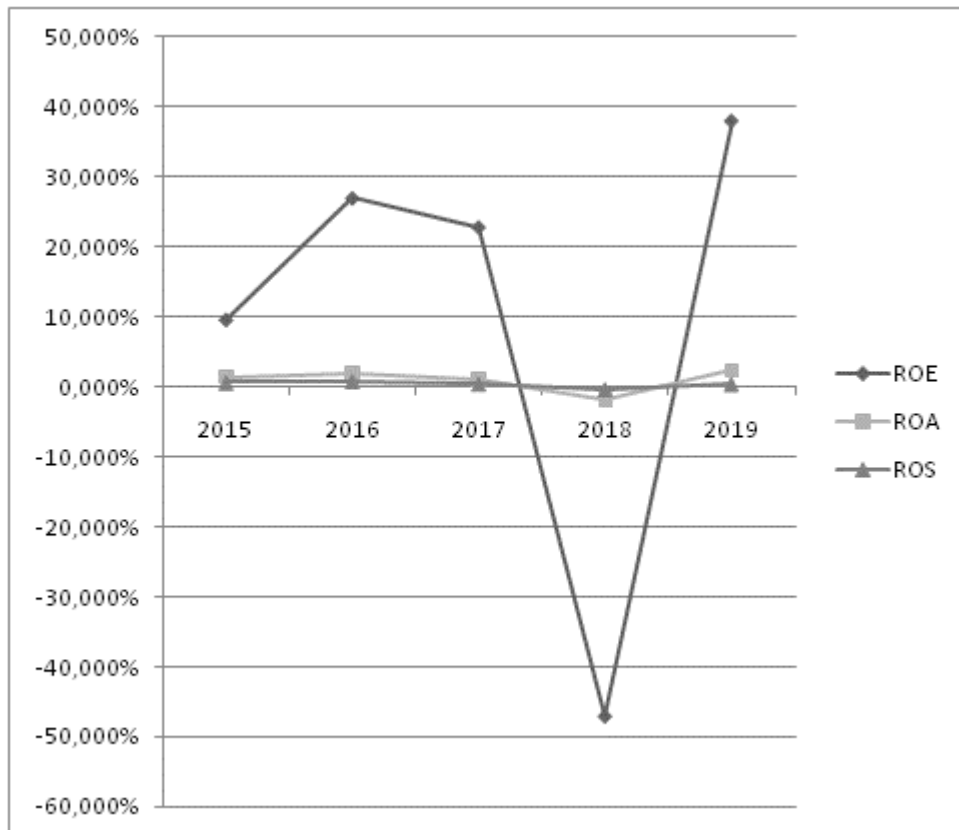
Table 49. Rentability ratio of HP Tronic Zlín

	2015	2016	2017	2018	2019
ROE	9,613%	26,999%	22,853%	<b>-47,108%</b>	<b>38,080%</b>
ROA	1,422%	1,931%	0,917%	-1,825%	2,301%
ROS	0,586%	0,775%	0,421%	-0,343%	0,401%

Source: results of own research based on annual statement report

The above statement is very clearly visible on the chart 4, where huge jumps are seen at all indicators.

Chart 4. ROE, ROA and ROS of HP Tronic Zlín in %



Source: results of own research based on annual statement report

## Debt ratio

The debt indicator is analysed in the table 50 below, where it is shown that the firm uses debt primarily to finance its activities. The amount of debt concerning assets is about 90% and this index constant.

There was observed a decrease in equity since 2017, and it was already analyzed previously, which affected all debt ratios. Thanks to this, the other two indexes have changed by almost half, by doubling.

Table 50. Debt ratio of HP Tronic Zlín

	2015	2016	2017	2018	2019
Debt ratio I	0,848	0,923	<b>0,955</b>	0,922	<b>0,905</b>
Debt ratio II	5,733	12,899	23,805	23,782	14,982
Debt ratio III	0,148	0,072	0,040	0,039	0,060

Source: results of own research based on annual statement report

### 5.5.3 Altman Z-Score and Kralicek Quick-test

#### Z-score test

In order to calculate the last index, the Z-score test, it is necessary to give the input data. It should be noted that the working capital was negative in several years – see table 51.

Table 51. Input for Z-score test calculation of HP Tronic Zlín

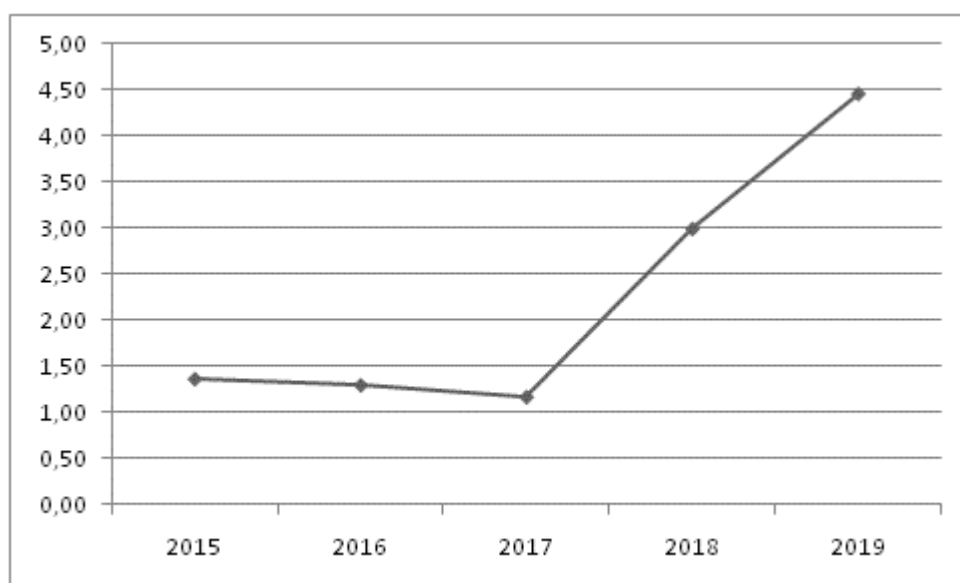
	2015	2016	2017	2018	2019
Working capital	296.630	-417.730	-506.141	246.812	-17.455
Assets	2.952.898	3.163.369	3.585.949	4.617.540	5.029.353
Net profit	41.992	61.085	32.890	-84.284	115.703
Assets	2.952.898	3.163.369	3.585.949	4.617.540	5.029.353
EBIT	82.171	1.311.469	1.414.132	-106.917	194.612
Equity	436.812	226.251	143.922	178.917	303.838
Sales	7.161.809	7.882.880	7.815.014	24.606.273	28.885.128

Source: results of own research based on annual statement report

The first test revealed the fact that the company is threatened with bankruptcy – see table 52. Only in 2018, this index was in the Gray Zone. On the other hand, the graph shows the dynamics of the indicator's improvement and its growth.

Table 52. Results of Z-score test calculation of HP Tronic Zlín

	2015	2016	2017	2018	2019	Average
Z-score	1,369	1,302	1,173	2,989	4,447	1,369
Result	Facing a bankrupt	Facing a bankrupt	Facing a bankrupt	<b>Grey zone</b>	Bankrupt is not likely	Facing a bankrupt



Source: results of own research based on annual statement report

### Kralicek quick test

The last method of calculation in this group is the Kralicek quick test. Calculation data are presented in the following table 53.

Table 53. Input for Kralicek quick test calculation of HP Tronic Zlín in CZK

	2015	2016	2017	2018	2019
Equity	436.812	226.251	143.922	178.917	303.838
Assets	2.952.898	3.163.369	3.585.949	4.617.540	5.029.353
Debt	2.504.314	2.918.451	3.426.119	4.255.079	4.552.049
Cash	37.007	17.777	23.914	21.801	25.906
Cash flow	204.561	-19.872	159.180	-585.195	145.473
Sales	7.161.809	7.882.880	7.815.014	24.606.273	28.885.128

Source: results of own research based on annual statement report

After all, calculations have been made, the following results are obtained which are presented in the table 54. In the end, the average of calculations is given.

Table 54. Results of Kralicek quick test calculation of HP Tronic Zlín

	2015	2016	2017	2018	2019	Average
R1	0,148	0,072	0,040	0,039	0,060	0,072
R2	11,710	-143,745	20,134	-7,004	29,463	-17,888
R3	0,029	-0,003	0,020	-0,024	0,005	0,006
R4	0,028	0,415	0,394	-0,023	0,039	0,170

Source: results of own research based on annual statement report

Further, we performed a primary analysis of the results in the table 55. As indicated in the table, most of the indexes point to the fact that the situation in the firm is insufficient.

Table 55. Kralicek Quick-test for HP Tronic Zlín, initial evaluation of results

	Excellent	Very good	Good	Insufficient	Dangerous
R1				X	
R2					X
R3				X	
R4		X			

Source: results of own research based on annual statement report

Finally, based on the data given in theory, we should add the number of points to each index. It is necessary to underline, based on the previous table, that almost all indices show a negative situation in the firm – see table 56. The Average is 1,5 due to the last index. Despite



the above negative facts, the company can be recommended as a firm that does not face bankruptcy.

Table 56. Kralicek quick-test for HP Tronic Zlín, final evaluation

Index $R_x$	Result of index $R_x$	Number of gained points
R1	0,072	1
R2	-17,888	0
R3	0,006	1
R4	0,170	4

Source: results of own research based on annual statement report

#### 5.5.4 Credit profile of HP Tronic Zlín s. r. o.

In general, the credit profile of the company is quite positive. The following moments should be underlined:

- Growing Activity ratio,
- Rapidly growing profits of the company, especially from the sale of its services,
- Successful acquisition with Datart.

Recently, the company has managed to increase the turnover of all its assets, which, of course, is a big advantage. The turnover's increasing rate is as a result reflected in all of the firm's financial indicators.

The firm has incomes that are growing very quickly. It is especially noticeable for the goods and services that the company produces by itself. Due to such activity, HP Tronic Zlín not only has growing revenues but also works with the diversification of its portfolio.

The company under study performed a very successful acquisition with Datart, which brought together some of the most important trade brands on the Czech electronics market: Euronics, Kasa.cz and Datart.

Judging by the financial indicators, the acquisition brought success and the company managed to increase its influence in the market, but also was able to do this without significantly increasing its personnel costs.

Besides gaining big advantages from the acquisition, there are negative impacts on the credit rating of the firm, which are the following:

- Unstable Rentability ratio,
- Negative working capital in some years,
- The calculation of the Z-score revealed that HP Tronic Zlín might be threatened by bankruptcy.

The firm has a very unstable Rentability ratio so that all of its indicators are constantly moving from minus to plus, and it is impossible to determine the general trend of the indicator. This is linked to the very volatile net profit value.

When calculating the *Z*-score test, it was noted that the company has a negative value Working capital for some years, which indicates an excess of short-term debts over current assets.

It was obvious from the *Z*-score calculation that the firm is on the verge of bankruptcy. On the other hand, the general situation is rapidly improving. If the dynamics continue further, the firm with this index will not be threatened with bankruptcy.

## 6 Conclusion

This work was focused on the analysis of the credit profile of firms via the instrument of financial analysis. The topic is undoubtedly very relevant in the modern world, especially taking into account the importance of understanding the financial management of a company using publicly available data.

There were selected for the analysis, two firms: Alza and HP TRONIC. Both companies are leaders in the Czech market of home electronics. The main aim of this master thesis is to write the financial analysis of the credit profile of selected company/companies.

In the first part of the thesis, the tools used to conduct the financial analysis of the companies were examined in detail, such as horizontal and vertical analysis, ratio analysis, Altman Z-Score and Kralicek Quick-test. Besides, information about the users of financial analysis has been updated. In the next chapter of the diploma work, the credit rating of the company was studied.

The first partial goal was to create a financial analysis of the credit profile of selected companies. Alza's study indicated the following: main part of assets are current assets – 6.192 million CZK, company is using quite aggressive strategy aiming on constant growth of using debts, revenues are consisted mainly from sales of goods in average 16.961 million CZK annually, company is facing a decrease of activities ratio turnover, ROA is 14 % and finally according to Z-score and Kralicek quick test bankrupt is not likely and company worth for investing. HP TRONIC's research indicated: current assets are also main part of the assets - 3.670 million CZK, for expansion purpose company is using non-bank debts, debt ratio is increasing., average annual sales are 14.515 million CZK, activity turnover is growing, ROA is 2 %, according to Z-score company is facing a bankrupt, but dynamic is a positive, however according to Kralicek quick test showed, that the company can be recommended as a firm that does not face bankruptcy.

The second partial goal was to find the weakness of the credit profile of designated companies and suggest an improvement for the company/companies. The firm Alza has the following negative elements in its rating: the probability AliExpress and Amazon strengthen their position in the local market and the growth of the company's debt. The firm should stop the growing debt, as it became very visible. Any change in the enterprise's financial policies may be negatively perceived by the lenders. On the other hand, the study revealed the

following positive aspects of the rating: leading position in the Czech market, portfolio diversification, expansion started abroad and positive results of the Z-score test and Kralicek quick test. Alza should strength activity ratio and stop increasing debts.

According to the study, HP TRONIC has the following negative elements: unstable rentability ratio, negative working capital in some years and Z-score calculation show firm's bankruptcy. On the other hand, this is compensated by the growing activity ratio, rapidly growing profits of the company, especially from the sale of its services and the Successful acquisition with Datart. The firm may be advised to keep following its current policy. The dynamics of financial indicators suggest that the company is doing great with its finances. However, HP TRONIC should stop think about aiming purely on sales and more concentrate on net profit.

In conclusion, it should be noted that the overall credit rating of both companies is very good: both firms operate in a fast-growing market and have a good reputation and have a strong financial position in the local market. On the other hand, there is a growing global competition, represented by Amazon and AliExpress. It is especially true of Amazon, which has already built its logistics centre in the Czech Republic several years ago.

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