



LCMB7002 Financial Management

Lecturer's name: Shengfeng Mei

Name: Md. Shajal Mia

ID: 2437642

Word count: 5172

Submission date:

Table of Contents

Introduction.....	3
Financial Health Check.....	4
Profitability Analysis.....	4
Liquidity Analysis.....	4
Efficiency Analysis.....	5
Gearing Analysis.....	5
Cash Flow Analysis.....	6
Altman Z-Score and Default Risk Assessment.....	6
Working Capital Management Analysis.....	7
Cash Operating Cycle (CCC).....	8
Relevant Working Capital Issues.....	8
Working capital Improvement strategies.....	9
Short-Term vs Long-Term Financing Options.....	9
Strategic Financial Restructuring Plan.....	10
Diagnosis of the Financial Problems.....	10
Visual Overview: Liquidity and Capital Structure Trends.....	11
Restructuring Alternative 1: Non-Core Assets Sale.....	12
Restructuring Alternative 2: Renegotiation and Debt Refinancing.....	12
Restructuring Alternative 3: Equity Injection.....	13
Restructuring Alternative 4: Merger or Strategic Partnership.....	13
Restructuring Alternative 5: Cost-Cutting and Operational Enhancement.....	13
Comparison of Restructuring Options.....	13
Influence of Shareholder Value, Debt Structure and Flexibility.....	14
International and Ethical Considerations.....	14
Investment Appraisal and Capital Budgeting.....	15
Project Cash Flow Inputs.....	15

Payback Period (PBP).....	16
Accounting Rate of Return (ARR).....	17
Net Present Value (NPV).....	18
Profitability Index (PI).....	20
Internal Rate of Return (IRR).....	21
Capital Rationing Decision (60m limit).....	21
Risk Analysis of every Project.....	22
Conformity to the Financial Conditions of the Company.....	23
Final Recommendation.....	23
Conclusion.....	24
References.....	25
Appendix.....	26

List of Figures

Figure 1Debt and Equity Levels, 2020–2024	13
Figure 2Cash and Cash Equivalents, 2020	13
Figure 3Project Cash Flow Profiles (Years 1–5)	18
Figure 4NPV Comparison	20
Figure 5NPV Results at 10%	21
Figure 6Profitability Index (PI) Comparison	22
Figure 7IRR Comparison	23

List of Tables

Table 1Key Financial Problems Requiring Restructuring	12
Table 2Expected Outcomes of Each Restructuring Option	15
Table 3Payback Period Results	19
Table 4ARR Results	20

Introduction

General Electric is also struggling with severe financial problems following a couple of years of low sales, escalating expenditures, and debts. Losses, poor cash flow and increased risk of financial failure are now being experienced by the company. The report given would take a closer look at the financial situation of the company and present a clear roadmap for how the company can recover. It examines the performance of the firm by discussing the key financial ratios and the Altman Z-Score to measure the risk of failure. It then examines the position of the working capital of the company to determine problems in the cash flow. A strategic restructuring plan that is aimed at stabilising operations and balancing the balance sheet is then proposed. Lastly, it examines three investment projects with the techniques of capital budgeting and provides suggestions as to the most viable project to move forward with the company.

Financial Health Check

General Electronics has had significant financial strain in the past five years, and in this section, its financial health has been scrutinised. Profitability, liquidity, efficiency, gearing, and cash flow performance are investigated with the use of the income statement, balance sheet and cash flow statement (Atrill, 2019). It also determines the key financial strengths and weaknesses of the company and assesses its risk of default by the Altman Z-Score model. In general, the data indicate that the company is on a severe downward trend, with declining revenues, increasing losses, significant reliance on debt, deteriorating liquidity, and fluctuating working capital.

Profitability Analysis

The GA is financially distressed as the profitability of General Electronics decreased radically during the five years. Net sales decreased between 2020 (£614.7 billion) and 2024 (£394.9 billion), indicating that the company lost over a third of its sales. This undercut economies of scale and marginal pressure. Gross profit also declined to £114.0 billion against £176.3 billion, indicating an increase in costs, loss of pricing power and reduced efficiency.

The operating income decreased by a profit of £37.3 billion in 2020 to a loss of £15.3 billion in 2024 and an even greater loss of £85.3 billion in 2023 through excessive expenditures and goodwill impairment. The same situation is observed in net income, as it fluctuated between a profit of £38.6 billion and hefty losses. These findings are an indicator of structural issues and increased chances of business failure.

Liquidity Analysis

Liquidity ratios demonstrate the capacity of the company to cover its short-term liabilities, and the liquidity of General Electronics declined during the last three years. In 2024, cash decreased dramatically compared to 2022, moving to £26.8 billion to cut the capacity of the firm to meet unforeseen expenditures. The current ratio also decreased, with the current assets decreasing to £242.5 billion, with £158.3 billion current liabilities remaining constant. That is to say that the company lacks short-term financial flexibility.

The same trend is found in the quick ratio. Inventory was excessive in previous years, indicating slow sales or excessive production and later dropped drastically, possibly with a reduction of production or write-downs. Both weaken liquidity. Altogether, decreasing liquidity raises financial risk and can cause the company to borrow more, which puts additional stress on its already large debt burden.

Efficiency Analysis

Efficiency ratios analyse the effectiveness of the assets in the company. General Electronics has major weaknesses in efficiency.

The inventory amounted to a high of £134.5 billion and £140.2 billion in 2021 and 2022, respectively, and then to £79.4 billion in 2024. Large inventories raise the holding costs, minimise the cash flow and indicate that the products are not selling as anticipated. The slowing down of inventory can be a result of discounting or less production, and not sales growth.

The collections have also been low since the accounts receivable have remained high and stable, indicating slow collection by the customers (Okpala *et al.*, 2019). Large current assets do not have access to money and indicate poorer credit management. When the customers have more time to turn over, the company is forced to finance its operations with greater debt.

Accounts payable were lowered in 2021 to £57.0 billion in 2023, and they were increased further to £72.0 billion in 2024. A reduction in the payment due can also show that suppliers are reducing credit terms as the company is in financial distress. Breaching of supplier credit elevates strain on cash flow and makes the company more dependent on bank financing.

These issues of efficiency make the cash operating cycle longer. Slow inventory turnover and slow collection action of receivables, and intermittent management of payables, result in cash shortages and an increase in the cost of financing.

Gearing Analysis

The debt of the company poses one of the largest risks to the business. Before dropping down to £170.3 billion in 2024, the total liabilities rose by increasing to £235.8 billion in 2022 and then to £197.0 billion in 2020. Although its debt levels declined during the last year, the firm uses a lot of externalities.

One of them is the excessive utilisation of the credit line. The lines of credit expanded to reach greater figures of 88 billion as compared to the beginning of the year 2020, amount of just £20 billion. Their total is decreased to an amount of £37 billion in 2024, but according to their previous rapid growth, the company used short-term financing as a solution to cash deficits. Lending in the short run is hazardous as it must be paid in a short time, and interest payments are raised during times of financial tension (Brigham, 2020).

The equity of shareholders has reduced drastically, as it was £313.3billion in 2020, and in 2024 it stands at £153.1billion. This significant downsizing reflects the devastating effect of losses incurred again. Gearing is also increased by the presence of high equity and low debt levels, so that the company becomes riskier. High gearing lowers the flexibility and increases lending rates and the threat of insolvency.

Cash Flow Analysis

General Electronics has had volatile and decreasing cash flow. Cash flow generated by operating activities decreased to £10.9 billion in 2022 and then levelled to increase to £25.2 billion in 2023, subsequently decreasing to lapse to its current position of £14.8 billion in 2024. This variability demonstrates that the company is not making cash out of its core business.

Cash flow has been driven by the working capital flows. These giant cash inflows and outflows caused by major changes in inventory in 2022 and 2023 indicate poor production planning. Moreover, the fluctuation of accounts receivable, payable, and accrued liabilities indicates that the company uses working capital modifications rather than actual profitability to generate cash.

There has been a consistent negative investment in cash flows primarily because of high capital expenditure and the cost of acquisition. Cash flows financing has been very volatile, with high borrowings and payments on credit lines. Poor financial planning and over-reliance on external funds are manifested in this instability (Maheshwari, 2019).

Low level of cash flow augurs the failure. The company might also fail to convert earnings into cash even when it is making more profit.

Altman Z-Score and Default Risk Assessment.

The Altman Z-Score is a famous predictive model of corporate failure. It is based on five ratios of finance to gauge the risk of bankruptcy. The Z-score is threatening when used on General Electronics. The outcomes of the model put the company in the distress zone, i.e. high probability of defaulting within two years.

The share of the three significant elements clarifies this low score:

- The change of working capital to total assets(X1) has decreased because liquidity has decreased.
- The ratio of retained earnings to total assets (X2) dropped at a very high rate due to high losses.
- The EBIT to total assets (X3) turned negative in 2023 and 2024.
- Equity to liabilities (X4) declined when there was a decline in equity, and an increase in debt was maintained at a high level.
- Falling revenue also reduced sales of total assets (X5).

A combination of these aspects implies that the company can experience a severe risk of failure. A fall in equity, a negative ratio of EBIT, and reduced sales are strong indicators of the likelihood of going bankrupt. Although the Z-score in the analysis given relies on book values, as opposed to market ones, the entire trend is quite clear: the company is in a dire financial situation (Altman *et al.*, 2019).

Financial results of General Electronics are poor in general. The company experiences decreasing profitability, strong volatility in its cash flow, decreasing liquidity and great reliance on debt. The cash operating cycle is lengthened by efficiency issues, adding pressure on working capital. The equity of shareholders has dropped significantly and has made the organisation less stable financially. The Altman Z-Score proves the high probability of corporate failure without corrective action. Institutional reorganisation and better financial management are to avoid insolvency.

Working Capital Management Analysis

Working capital management is critical in ensuring that the operations of a company run smoothly and the organisation is stable on a short-term basis. In the case of General Electronics, the five-year inventory, receivables and payables moves reveal that the company is experiencing pressure to manage its cash efficiently. This part evaluates the cash operating cycle, discusses working capital issues that influence liquidity and compares financing sources that could be used to meet short-term requirements.

Cash Operating Cycle (CCC)

The cash operating cycle is used to determine how many days it takes to convert the inventory into cash. The longer cycle implies that the company must fund its operations longer before revenue enters. Over the last couple of years, the CCC of General Electric has developed in a more difficult way.

Inventory was sudden in both 2021 and 2022, indicating that sales were slow or too high. Even though inventory in 2024 decreased, this can be connected to lower production or discounting than high demand. These fluctuations result in confusion and loss of planning in cash flow.

The levels of receivable have also been high, which shows that the customers pay slowly. The longer it takes to collect, the more the company must depend on short-term financing to meet its daily needs (CFA Institute, 2020). Bad debts are also enhanced by slow collections.

There are years in which payables decreased, which implies that the company paid its suppliers within a shorter period. This could have occurred since the suppliers were not willing to extend credit because they were worried about the financial health of the firm. Supplier credit becomes tighter, which leads to higher cash outflows and a longer CCC.

In general, the company CCC indicates several stress areas: slow-moving inventory, slow customer payments and declining supplier credit. All these issues combined complicate the management of working capital and pressure the liquidity.

Relevant Working Capital Issues.

There are three primary problems that bring liquidity problems to General Electronics.

To begin with, the granting of huge sums of money for weak inventory. Statistics of cumulative inventory increase storage expenses and decrease the amount of money to perform other tasks. The subsequent decrease in the inventory can be indicative of something more troubling in the operation, like reduced production or selling at reduced prices (Jiambalvo, 2019).

Second, there is excessive time for the collection of receivables. Large amounts of receivables hold up cash inflows and compel the business to opportunistically borrow larger amounts of money. This enhances the lack of flexibility in finance and augmented interest rates.

Third, the company has been restricted by unstable payables management in the capacity to utilise supplier credit to finance the company in the short term. When the suppliers limit the terms of credit on financial grounds, the company will have to make earlier payments, which will place a strain on cash (Li *et al.*, 2016).

These three matters cut the liquidity directly and increase the risk of cash shortage.

Working capital Improvement strategies.

To enhance the working capital and contribute towards liquidity, General Electronics must undertake several changes. Improved inventory management is a step towards better. Business needs to increase the level of demand forecasting and match production with sales trends. Such practices as just-in-time (JIT) purchasing or costly economic order quantity (EOQ) can save inventory and cut expenses. To clean up the receivables, the firm should work on tightening credit checks, giving harsher payment terms and offering early payment discounts. Frequent tracking of the outstanding accounts would also enable it to collect faster and have more cash available. The company should negotiate with the suppliers by having longer payment terms as much as possible. Developing a better relationship and communicating its restructuring plans could assist in regaining the confidence of the suppliers and negotiating better terms (O'Hare, 2016). Introducing the short-term

cash flow forecasts would also enable the company to early identify the cash shortages and manage the working capital in a better manner.

Short-Term vs Long-Term Financing Options

Short-term funding means overdrafts, revolver credit and invoice factoring. They can access cash fast and can be helpful in cases where a company requires immediate assistance (Hillier, 2017). But they come at a high interest rate, and they would have to be repaid in a short time. In a financially distressed company, overreliance on short-term finance poses risk.

Long-term funding solutions like long-term loans, bonds or new equity are more stable and have repayment durations. They are more appropriate for backing a complete restructuring strategy, but can be less readily available where the profitability is poor. Equity issues might also boost the balance sheet at the expense of the current shareholders.

General Electronics can require both short-term finance with exclusive limits to cover urgent cash requirements and long-term finance as a component of the broader restructuring plan (Parrino *et al.*, 2025).

General Electronics has a low status of working capital. The cash operating cycle is longer and harder to manage due to slow inventory turnover, slow receivable collection and inconsistent supplier credit. Such issues diminish liquidity and augment the financial threat. Inventory control, credit management, and supplier negotiations should be improved to resume the cash flow, and specific utilisation of short-term and long-term financing would assist the company on its path of restructuring.

Strategic Financial Restructuring Plan

General Electronics needs a powerful financial restructuring strategy that would deal with its reduced profitability, its deteriorating liquidity, its high use of debt, and its increasing financial risk. It has lost significant profits, a lack of strong cash flow, a low velocity of working capital and deteriorating equity. These matters have decreased the flexibility and increased the chances of failure due to financial reasons, as indicated by the Altman Z-Score in the section before it. In the discussion, a list of

restructuring measures is suggested, benefits and drawbacks of each measure are evaluated concerning the shareholder value, debt structure and flexibility in operations, and finally, international and ethical issues that should be considered in the recovery plan are drawn (Mielcarz *et al.*, 2018).

Diagnosis of the Financial Problems.

The financial performance of General Electronics has taken a major toll on the last financial reports. The level of profitability has plummeted, and the net income has turned to huge losses. The liquidity has gone down because of dwindling cash and shaky working capital. Also relied on by the company is debt, particularly short-term debt, that causes increased interest costs and a lack of financial flexibility. The shareholder equity has gone down drastically due to the recurrence of losses, and the company is highly in danger of default (Altman *et al.*, 2019).

The following table outlines the key financial issues that the restructuring plan will be required to solve.

Table 1Key Financial Problems Requiring Restructuring

Problem Area	Evidence	Impact
Falling profitability	Net income turned into large losses	Reduces investor confidence
Weak liquidity	Cash fell to £26.8bn in 2024	Limits the ability to meet obligations
High leverage	Heavy reliance on credit lines	Higher interest burden and risk
Unstable working capital	Slow receivables and volatile inventory	Creates cash shortages
Poor cash flow stability	Operating cash flow is inconsistent	Increased borrowing requirements

Visual Overview: Liquidity and Capital Structure Trends

Two charts provided below demonstrate the deterioration of liquidity of the company and its evolving debt-equity ratio.

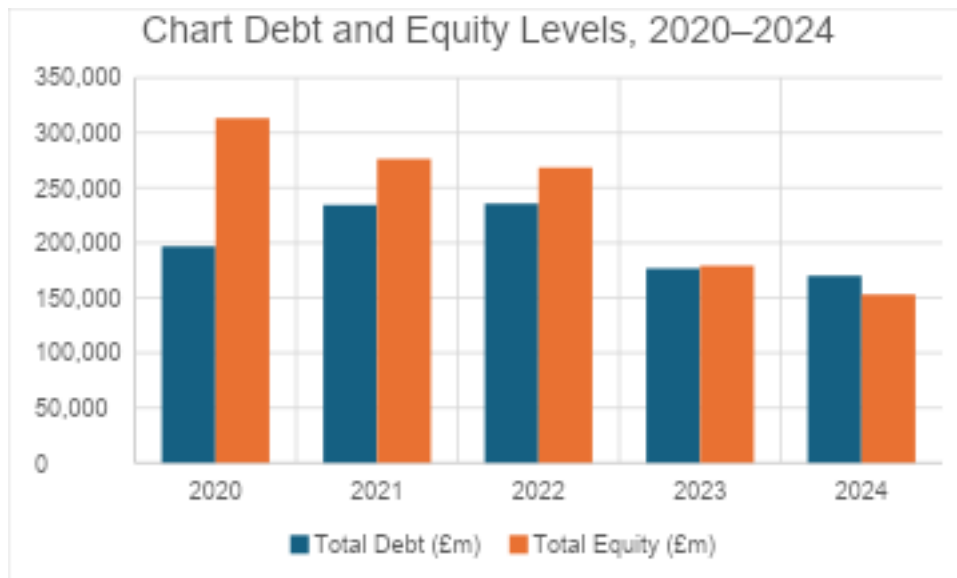


Figure 1 Debt and Equity Levels, 2020–2024

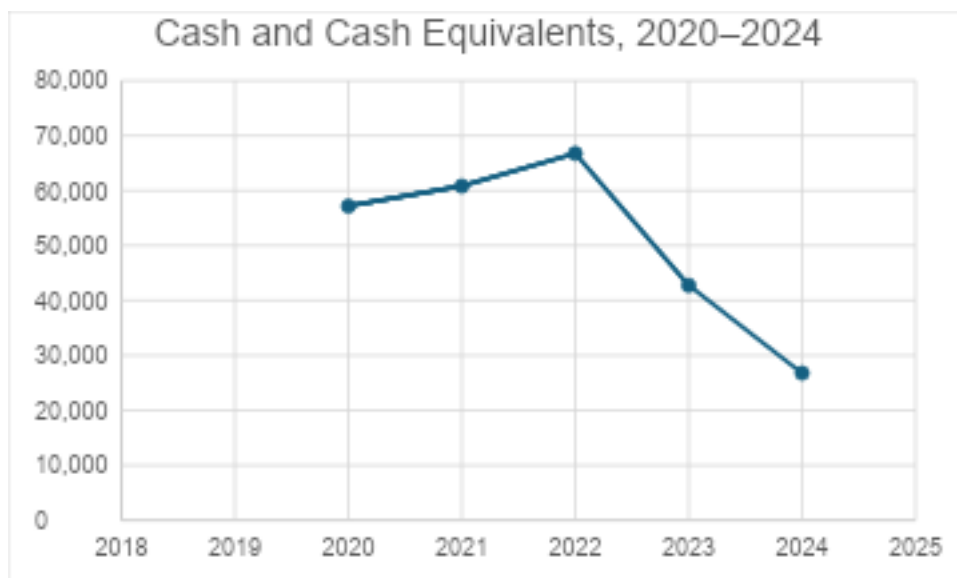


Figure 2 Cash and Cash Equivalents, 2020

With these graphs, it is possible to demonstrate that restructuring is necessary immediately. The debt ratios are still high, and equity has reduced because of the losses. The level of cash has declined significantly, putting more pressure on the short-term.

Restructuring Alternative 1: Non-Core Assets Sale.

One quick method of getting cash and lowering the complexity of operations is to sell non-core assets or those that perform poorly. General Electronics also has several business units that might not play any significant role in the long-term strategy. The

sale of these units would raise short-term cash to clear off debts, stabilise cash flows to make necessary investments.

Divestiture may increase the value to the shareholders in case the assets sold are not essential for future development (Edmans and Mann, 2019). The funds can be used to pay off debt, minimise interest and balance the balance sheet. The company should, however, not sell strategic assets at a reduced price, particularly when in dire financial times.

Restructuring Alternative 2: Renegotiation and Debt Refinancing.

The fourth and fifth elements are refinancing due to the high dependency of the company on costly and short-term financing. The company can also enhance cash flow and decrease financial risk by renewing the terms of repayment with lenders or decreasing interest rates. Turning short-term credit lines into long-term loans would eliminate the daily stress of bad debt repayment.

The option reinforces the debt structure and increases the flexibility of operations. Nevertheless, there are higher terms or more stringent performance requirements which lenders might demand before accepting new terms.

Restructuring Alternative 3: Equity Injection.

The increased equity will enhance the balance sheet as the capital would be raised to augment shareholder capital and limit the use of debt. Equity issues can include current shareholders, institutional investors or strategic partners (Sun *et al.*, 2016). Even though equity injections can lead to dilution, they bring long-term stability and low leverage.

Also, a better equity position will aid in regaining the confidence of suppliers and lenders, as well as a greater willingness to grant credit.

Restructuring Alternative 4: Merger or Strategic Partnership.

New resources, technology and market access can be available through a merger or strategic partnership. It is also able to generate a cost advantage through economies of scale and minimise overlapping functions. To a company in distress, a stronger partner may hasten the process of getting back on its feet and attain greater competitiveness.

Mergers are tricky and come with cultural risks, and are also very time-intensive in terms of integration. The prospective partners would need to be stable and strategically oriented in terms of financial capacity.

Restructuring Alternative 5: Cost-Cutting and Operational Enhancement.

Cost efficiency should also be enhanced to regain profitability. The company ought to examine its complete cost engineering encompassing overheads, string of supply chain and production techniques. Margins should be increased by eliminating avoidable expenses and enhancing operational performance.

The restructuring of costs should also be taken seriously to avoid much interference with both personnel and operations.

Comparison of Restructuring Options

Table 2 Expected Outcomes of Each Restructuring Option

Option	Benefit	Risk
Divestiture	Raises cash; reduces debt	May sell valuable assets too cheaply
Debt refinancing	Lowers interest costs; improves cash flow	Lenders may demand strict terms
Equity injection	Strengthens equity; reduces leverage	Shareholder dilution
Merger/partnership	Access to new resources; synergies	Difficult integration
Cost restructuring	Higher profitability and efficiency	Possible staff impact

Influence of Shareholder Value, Debt Structure and Flexibility.

Impact on Shareholder Value: Restructuring enhances shareholder value through the minimisation of losses, maximisation of shareholder margins and stabilisation of the capital structure (Okonkwo *et al.*, 2023). Though there may be dilution of equity in the long term, the long-term gains will be more than the short-term interests.

Impact on Debt Structure: Refinancing and asset sales of debt lower the total leverage and interest cost. The healthier debt profile will enhance the capacity of the company to draw in investment and negotiate improved credit rates.

Influence on Flexibility in Operations: Reduced debt and better working capital will provide the management with greater leeway to invest in the construction of growth activity. The fact that the operations are streamlined also makes the company more responsive to the market conditions.

International and Ethical Considerations.

Currency Risk: The company is an international one, and therefore, the fluctuations in the exchange rates may influence profitability. This risk can be managed using hedging instruments like forward contracts.

Inflation: Increased inflation limits the cost of production. The company is also expected to renegotiate the long-term contracts and modify the pricing strategies.

Taxation: Mergers and equity issues, as well as asset sales, could contain significant tax implications. The company should also consult specialists to make sure that it complies and has reduced taxes.

Ethical matters and CSR: Restructuring can be through job cuts or renewals with suppliers. The company should be responsible, open to communication and treat the employees and stakeholders fairly (Freeman and Velamuri, 2023).

General Electronics is a company that is seriously challenged financially and thus needs an extensive restructuring strategy. Divestiture, debt refinancing, the injection of equity, restructuring of the costs, and possibly a merger would stabilise the business and contribute to recovery in the long term. These measures will empower capital structure, liquidity and decrease financial risk and enlarge the flexibility of operations. The international and ethical considerations should be tapped cautiously to make sure that the restructuring is sustainable and responsible.

Investment Appraisal and Capital Budgeting

In financial decision-making, assessment of an investment project is a critical component, particularly at a time when a firm is in distress and has minimal funds to

invest. General Electronics has two investment alternatives that would enable it to implement in terms of initial investment and yield varied cash inflow patterns. It is here that all three projects are tested with respect to the Payback Period (PBP), Accounting rate of Return (ARR), Net Present Value (NPV), Profitability Index (PI), and Internal Rate of Return (IRR). It is at a 10% discount, where the depreciation is straight-lined to zero. The section further uses capital rationing since the company is allowed to invest not more than £60 million. The last recommendation is based on the financial result, risk, and tactical properly.

Project Cash Flow Inputs

Project	Initial Investment (£m)	Year 1	Year 2	Year 3	Year 4	Year 5
A	40	10	12	14	10	8
B	30	6	6	6	6	6
C	50	5	10	20	25	15

Strauss's line asset depreciation to zero:

- Project A: $\text{£}40\text{m} \div 5 = \text{£}8\text{m}$ per year
- Project B: $\text{£}30\text{m} \div 5 = \text{£}6\text{m}$ per year
- Project C: $\text{£}50\text{m} \div 5 = \text{£}10\text{m}$ per year

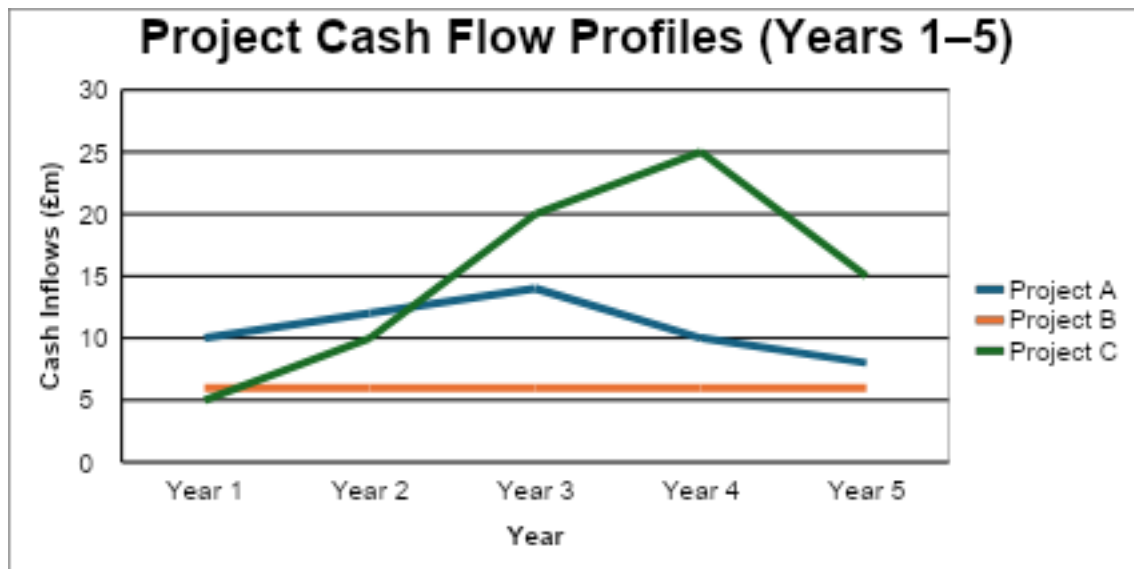


Figure 3 Project Cash Flow Profiles (Years 1–5)

Payback Period (PBP)

The Payback Period indicates the duration that an investment must pay back its investment. It is a low complexity liquidity-based indicator, which is helpful to a financially troubled company (Pustynick, 2017).

Project A

Cumulative inflows:

Year 1 = 10

Year 2 = 22

Year 3 = 36

Year 4 = 46- Payback Year 3-4

Amount needed at the end of Year 3: $40 - 36 = 4$

Fraction of Year 4: $4/10 = 0.4$

PBP = 3.4 years

Project B

Cumulative inflows:

6, 12, 18, 24, 30 → recovered at the end of Year 5

PBP = 5.0 years

Project C

Cumulative inflows:

5, 15, 35, 60 → recovered during Year 4

Amount needed at the end of Year 3: $50 - 35 = 15$

Fraction of Year 4: $15/25 = 0.6$

PBP = 3.6 years

Table 3 Payback Period Results

Project	Payback Period (Years)
A	3.4
B	5.0
C	3.6

Interpretation: The payback period of Project A is the lowest, and this is noteworthy when the company is facing liquidity issues.

Accounting Rate of Return (ARR)

ARR = Total Annual Revenue / Start-up capital.

Project A

Mean profit = (Cash inflow - Depreciation)

Average cash inflow = $(10+12+14+10+8)/5 = 10.8$

Average profit = $10.8 - 8 = 2.8$

ARR = $2.8 / 40 = 7\%$

Project B

Average cash inflow = 6

Average profit = $6 - 6 = 0$

ARR = 0%

Project C

Average cash inflow = $(5+10+20+25+15)/5 = 15$

Average profit = $15 - 10 = 5$

ARR = $5 / 50 = 10\%$

Table 4ARR Results

Project	ARR (%)
A	7%
B	0%
C	10%

Interpretation: PRC is more suitable for Project C, and Project B has no accounting for returns.

Net Present Value (NPV)

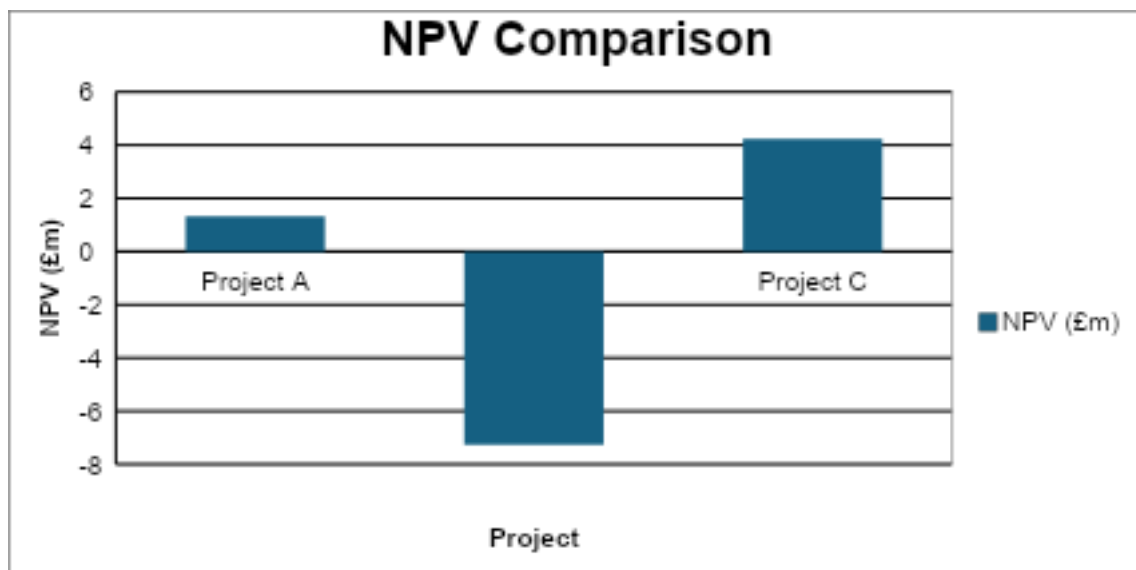


Figure 4NPV Comparison

NPV is used to find the value of the project to the firm after it forgives the cost of capital.

Discount rate: 10%

Current values (PV) of every project.

Project A PV of cash inflows:

$$10/1.1 + 12/1.1^2 + 14/1.1^3 + 10/1.1^4 + 8/1.1^5$$

$$= 9.09 + 9.92 + 10.52 + 6.83 + 4.97$$

$$= £41.33\text{m}$$

$$\text{NPV} = 41.33 - 40 = £1.33\text{m}$$

Project B PV of cash inflows:

Each inflow is 6:

$$6 \times (\text{PV annuity factor } 10\%, 5 \text{ years} = 3.79)$$

$$= 22.74$$

$$\text{NPV} = 22.74 - 30 = -£7.26\text{m}$$

Project C PV of cash inflows:

$$5/1.1 + 10/1.1^2 + 20/1.1^3 + 25/1.1^4 + 15/1.1^5$$

$$= 4.55 + 8.26 + 15.03 + 17.08 + 9.32$$

$$= £54.24\text{m}$$

$$\text{NPV} = 54.24 - 50 = £4.24\text{m}$$

Project	NPV (£m)
A	1.33
B	-7.26
C	4.24

Figure 5 NPV Results at 10%

Interpretation: Project A and C have positive NPV, whereas Project B kills value.

Profitability Index (PI)

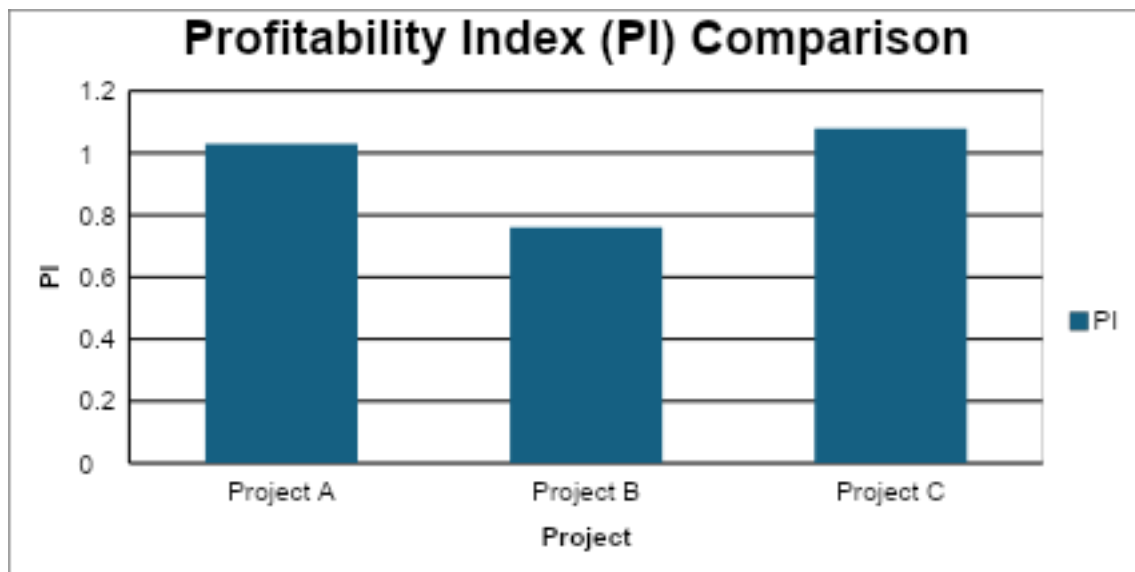


Figure 6 Profitability Index (PI) Comparison

Project	PV of Inflows (£m)	Initial Investment (£m)	PI
A	41.33	40	1.03
B	22.74	30	0.76
C	54.24	50	1.08

Interpretation: A and C are acceptable ($PI > 1$).

C is the most substantial investment.

Internal Rate of Return (IRR)

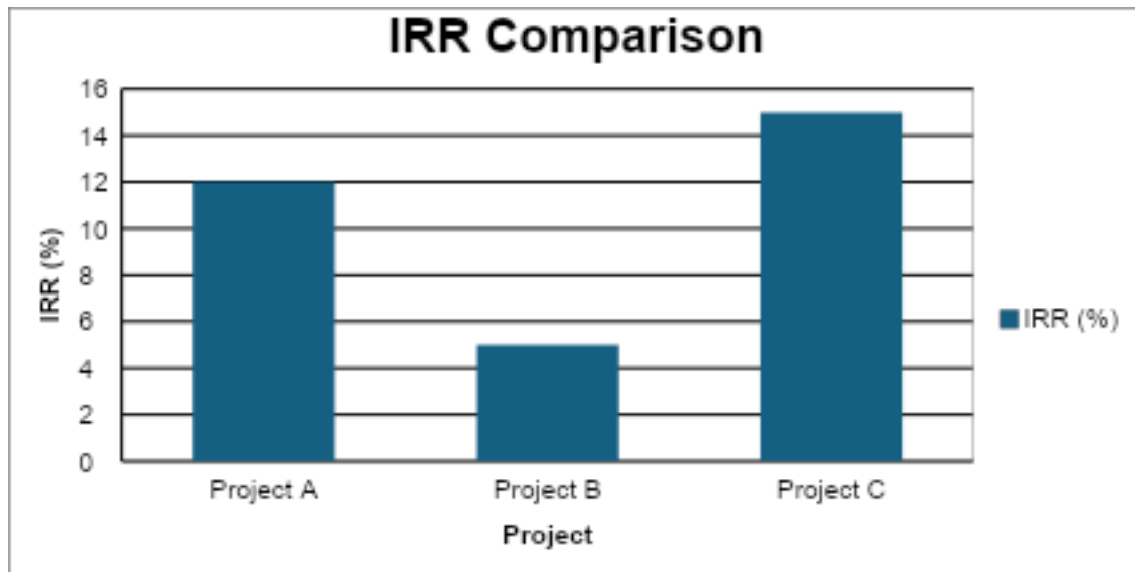


Figure 7 IRR Comparison

IRR is the discount rate that determines NPV to be equal to 0.

Approximate IRRs:

Project	IRR (%)	Interpretation
A	≈ 12%	Slightly above required return (10%)
B	< 5%	Poor return
C	≈ 14–15%	Strong return

Interpretation: Again, Project C performs the most optimally.

Capital Rationing Decision (60m limit)

The company will only be able to invest up to 60m, and hence it will have to decide which combination to use that will maximise the overall NPV.

Combination Testing

Combination	Cost (£m)	Total NPV (£m)	Feasible?
A	40	1.33	✓
B	30	−7.26	✓

C	50	4.24	✓
A + B	70	−5.93	✗ Exceeds £60m
A + C	90	5.57	✗ Exceeds £60m
B + C	80	−3.02	✗ Exceeds £60m

Single-project options only are possible.

Best NPV at capital rationing: Project C (NPV £4.24m)

Risk Analysis of every Project.

The important consideration of risk is crucial in analysing investment undertakings, particularly those of a company such as General Electronics that is already in financial problems. Every project is unique both in terms of financial performance and the amount of risk, and they should be thought through before an investment decision is reached (Irons, 2019).

Project A has a medium risk profile. Its cash inflows are constant within the initial three years but decrease in Years 4 and 5. The short payback period, 3.4 years, is beneficial in a firm that is not very liquid since it recalls cash fast. Even though Project A has a good NPV, the value generated is quite low in comparison with Project C. It implies that the project is moderately safe and foreseeable and carries minimal long-term financial gains. The general risk is mediocre, and the strategic effect is low.

The risk involved in project B is the greatest, and its performance is the weakest. The inflow of the project is the same each year, and it has no growth capacity. Its NPV is negative, and its IRR is significantly lower than the required 10 percent. Putting this project to pass would lower shareholder wealth and incur more strain on the already weak financial status of the company. Project B should be rejected because it is not strategically beneficial and is costly to the entire budget.

Project C has the best profit and a respectable amount of risk. Though it is the most costly investment, it offers high and growing inflows of cash, particularly in Years 3 and 4. The NPV, IRR and PI are maximum, and so it is the strongest financial statement. Although its size also exposes it, the advantages exceed its risks. Project C is the best choice in terms of finance and strategy.

Conformity to the Financial Conditions of the Company.

General Electronics is in a dire economic position of liquidity trouble, a highly leveraged, unpredictable cash flow and waning profitability. The investment decision made should hence be in line with these realities and in line with the overall restructuring objectives of the company (Ndekugri, 2018).

Project B is not associated with the needs of the company, as it yields poor returns and a negative NPV and does not contribute to the profitability or liquidity. Taking Project B would increase the financial position.

Project A is more appropriate due to the shorter payback period since it offers quicker recovery of the cash. Nevertheless, its cost and the small NPV indicate that it does not contribute greatly to the financial health of the company in the long-term perspective.

Project C has a close alignment in compliance with the needs of the company. Its increasing cash flows in Years 3 and 4 enhance long-term liquidity, whereas high NPV and IRR are beneficial to profitability and recovery of the capital structure of the company. Project C fits best as a strategic plan in case of a financial crisis, as it enhances long-term shareholder value.

Final Recommendation

The maximum investment that the company can make is 60 million dollars under capital rationing. Because there is no project with two projects that can be combined to work within this limit, it is necessary to select one project. Project C is the proposed investment based on its financial performance and consideration of risk.

Project C offers the best NPV (£4.24m), the best IRR (around 15 per cent) and PI (1.08). These indicators demonstrate that the project generates the largest shareholder value relative to its cost (Lasher, 2017). The trend of increasing cash inflow helps to create liquidity in the later years of restructuring, which is necessary in a firm with a poor history of cash flows. The project also helps in the long-term rewards of long strategic recovery, because it enhances profitability and capital base.

Although Project A is viable and can be considered at another time when the financial status of the company is stable, Project C is the best choice due to the highest financial payback, strategic relevance, and risk that can be controlled.

Conclusion

The present report analyses the current financial state of General Electronics and how it can emerge out of the financial troubles it is currently facing. It evaluates profitability, liquidity, working capital and failure risk using Altman Z-Score. The report subsequently gives a viable financial restructuring plan which will enhance performance and stability. Lastly, it evaluates three investments using capital budgeting methods and advises the alternative which gives the best value on a capital rationing basis. This is to facilitate informed and effective financial-decision making.

References

- Altman, E.I., Hotchkiss, E. and Wang, W., 2019. *Corporate financial distress, restructuring, and bankruptcy: analyse leveraged finance, distressed debt, and bankruptcy*. John Wiley & Sons.
https://books.google.com/books?hl=en&lr=&id=V1-HDwAAQBAJ&oi=fnd&pg=PR11&dq=Corporate+Financial+Distress,+Restructuring,+and+Bankruptcy&ots=Lqnq3Wlf_H&sig=o22N1Ph_CyPv0Bm4BIJln_k1Xc
- Atrill, P., 2019. Accounting and finance for non-specialists.
- Brigham, E.F., 2020. Financial management: Theory & practice.
- CFA Institute 2020 *Financial Statement Analysis: Concepts and Applications*. Available at: <https://www.cfainstitute.org>
- Edmans, A. and Mann, W., 2019. Financing through asset sales. *Management Science*, 65(7), pp.3043-3060.
https://pubsonline.informs.org/doi/abs/10.1287/mnsc.2017.2981?casa_token=bkg7RDPSRCkAAAAA:E3DBbenCxDe02c5k1YdPPH_X5QdIP3ubgWkLhHX7VYnr2YZkFs_vieMiMha5MJUvuc-Ku5fWrwec
- Freeman, R.E. and Velamuri, S.R., 2023. A new approach to CSR: Company stakeholder responsibility. In *R. Edward Freeman's Selected Works on Stakeholder Theory and Business Ethics* (pp. 251-264). Cham: Springer International Publishing.
https://link.springer.com/chapter/10.1007/978-3-031-04564-6_12
- Hillier, D., 2017. Fundamentals of corporate finance.
- Irons, R., 2019. *The fundamental principles of finance*. Routledge.
- Jiambalvo, J., 2019. *Managerial accounting*. John Wiley & Sons.
- Lasher, W., 2017. *Practical financial management* (p. 851). Cengage Learning.
- Li, D., Lu, Y., Ng, T. and Yang, J., 2016. Does trade credit boost firm performance?. *Economic Development and Cultural Change*, 64(3), pp.573-602.
<https://www.journals.uchicago.edu/doi/abs/10.1086/685764>
- Maheshwari, S.N., 2019. *Financial Management: Principles & Practice*. Sultan Chand & Sons.

- Mielcarz, P., Osiichuk, D. and Owczarkowski, R., 2018. Financial restructuring and target capital structure: An iterative algorithm for shareholder value maximisation. *Review of Accounting and Finance*, 17(2), pp.280-294. <https://www.emerald.com/insight/content/doi/10.1108/RAF-01-2017-0001/full/html>
- Ndekugri, A., 2018. Corporate restructuring and investment. *Asian Journal of Finance & Accounting*, 10(1), pp.129-144.
- O'Hare, J., 2016. *Analysing financial statements for non-specialists*. Routledge. <https://www.taylorfrancis.com/books/mono/10.4324/9781315630434/analysing-financial-statements-non-specialists-jim-hare>
- Okonkwo, J.J., Okere, W., Okoye, N.J. and Mkparu, E.T., 2023. The effect of capital restructuring on bank financial performance. *AKRUAL: Jurnal Akuntansi*, 15(1), pp.14-25. <https://journal.unesa.ac.id/index.php/aj/article/view/26632>
- Okpala, K.E., Osanebi, C. and Irinyemi, A., 2019. The impact of credit management strategies on liquidity and profitability. *Journal of behavioural studies*, 1(1), pp.1-14. https://www.researchgate.net/profile/Chimsunum-Osanebi/publication/333867498_The_Impact_of_Credit_Management_Strategies_on_Liquidity_and_Profitability/links/6294de4ec660ab61f852a118/The-Impact-of-Credit-Management-Strategies-on-Liquidity-and-Profitability.pdf
- Parrino, R., Bates, T.W., Gillan, S.L. and Kidwell, D.S., 2025. *Fundamentals of corporate finance*. John Wiley & Sons.
- Pustylnick, I., 2017. Comparison of liquidity-based and financial performance-based indicators in financial analysis. *Oeconomia Copernicana*, 8(1), pp.83-97. <https://www.cceol.com/search/article-detail?id=531729>
- Sun, J., Ding, L., Guo, J.M. and Li, Y., 2016. Ownership, capital structure and financing decision: Evidence from the UK. *The British Accounting Review*, 48(4), pp.448-463. <https://www.sciencedirect.com/science/article/pii/S0890838915000190>

Appendix

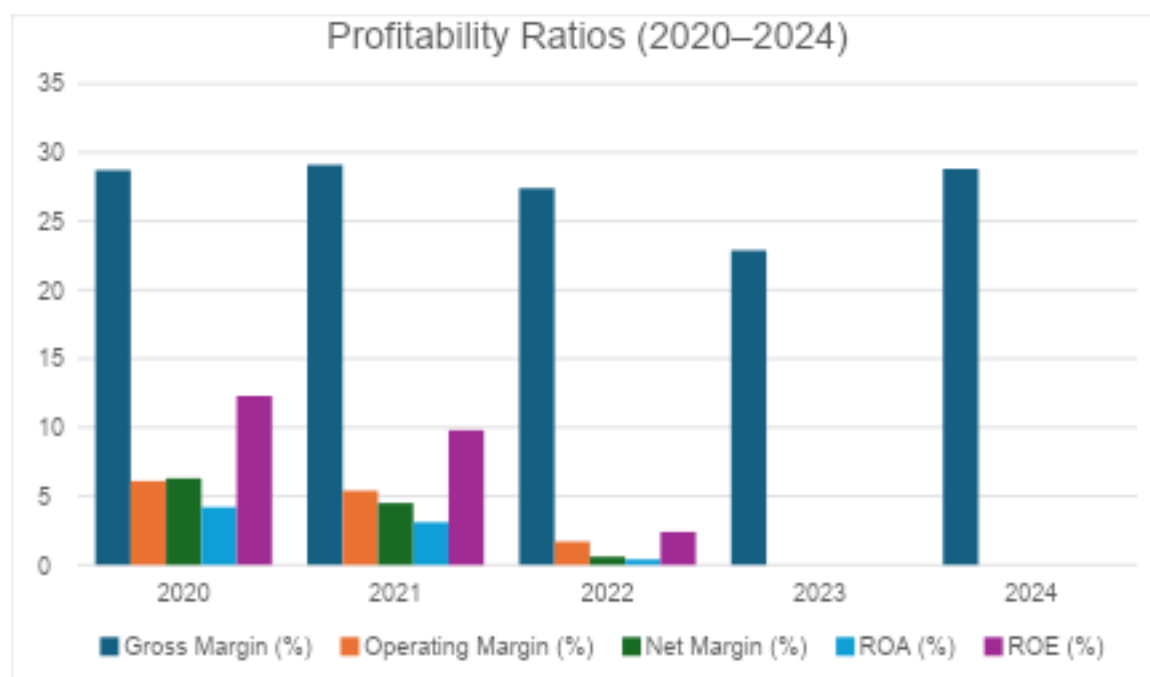


Figure: Profitability Ratios (2020–2024)

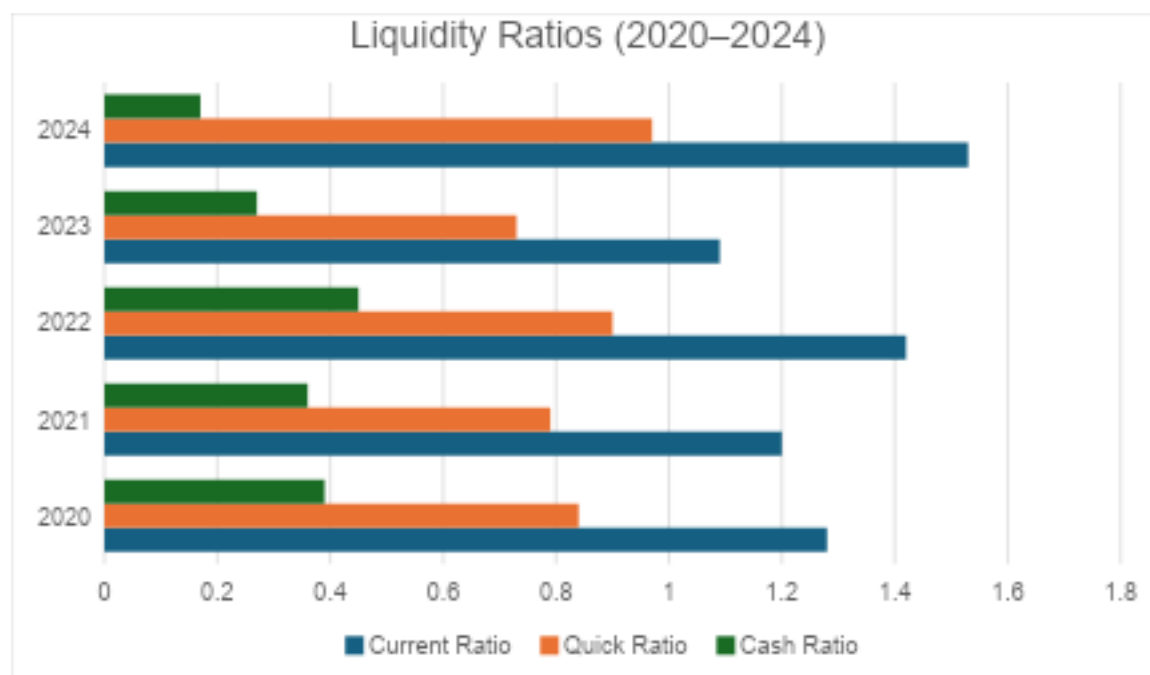


Figure: Liquidity Ratios (2020–2024)

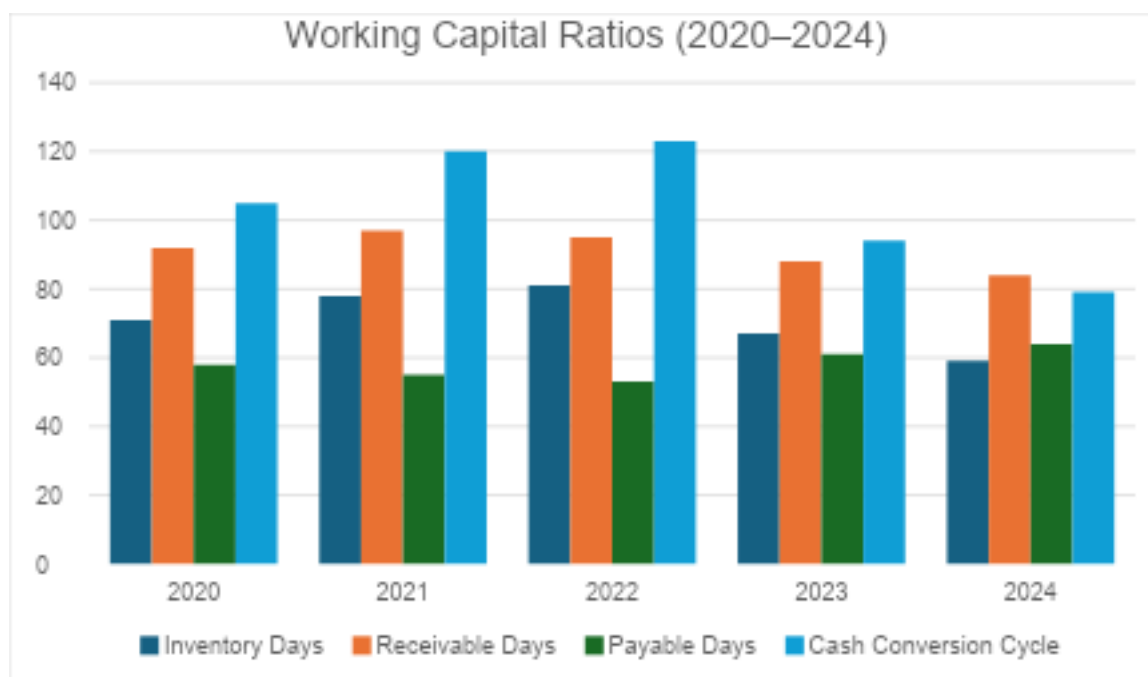


Figure: Working Capital Ratios (2020–2024)

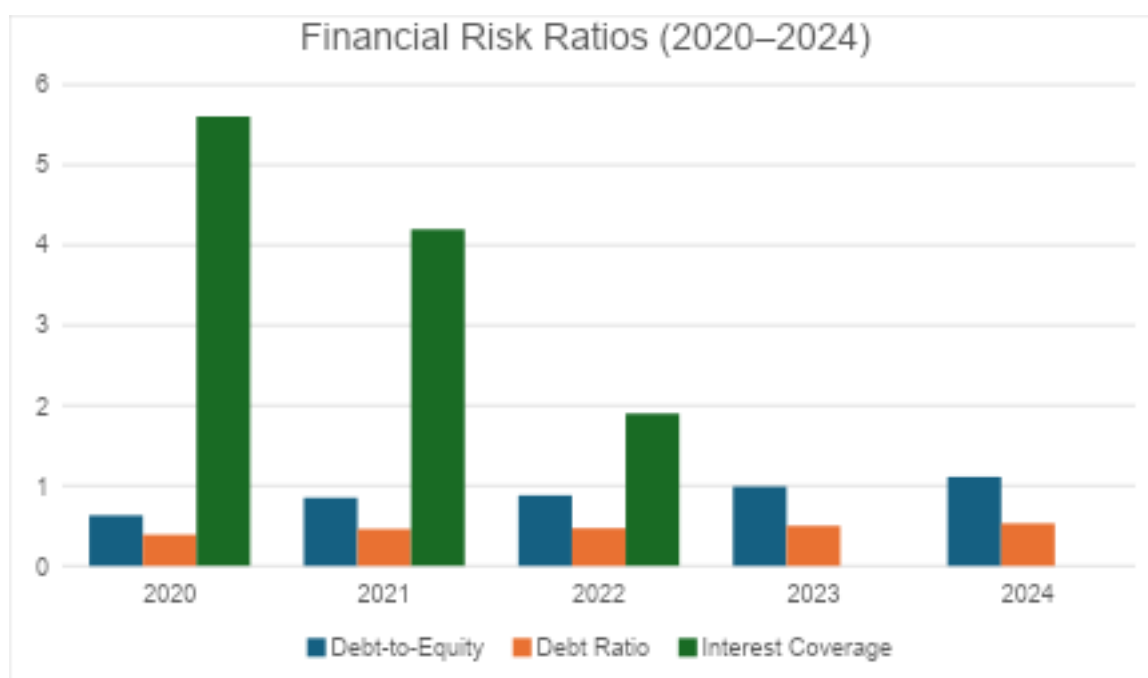


Figure: Financial Risk Ratios (2020–2024)

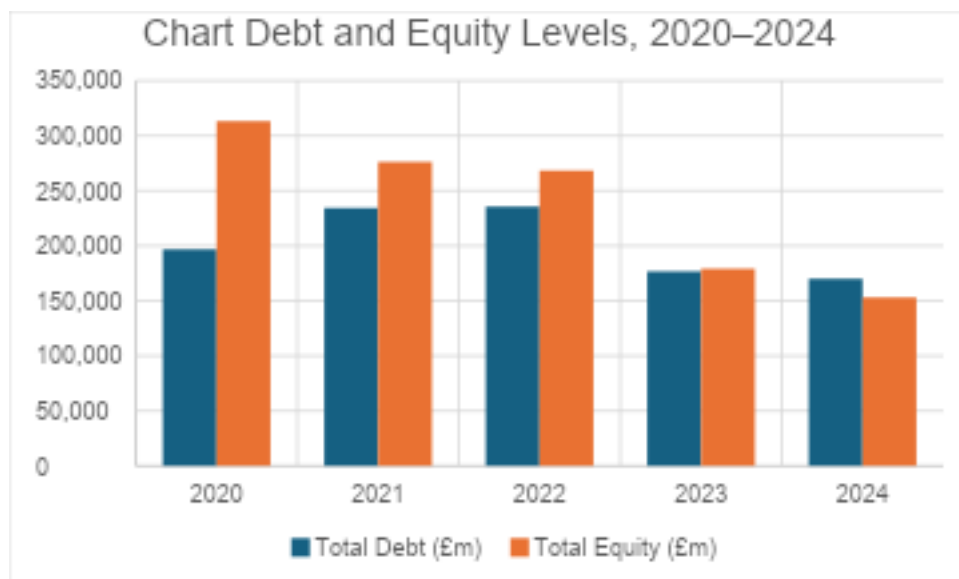


Figure: Debt and Equity Levels, 2020–2024

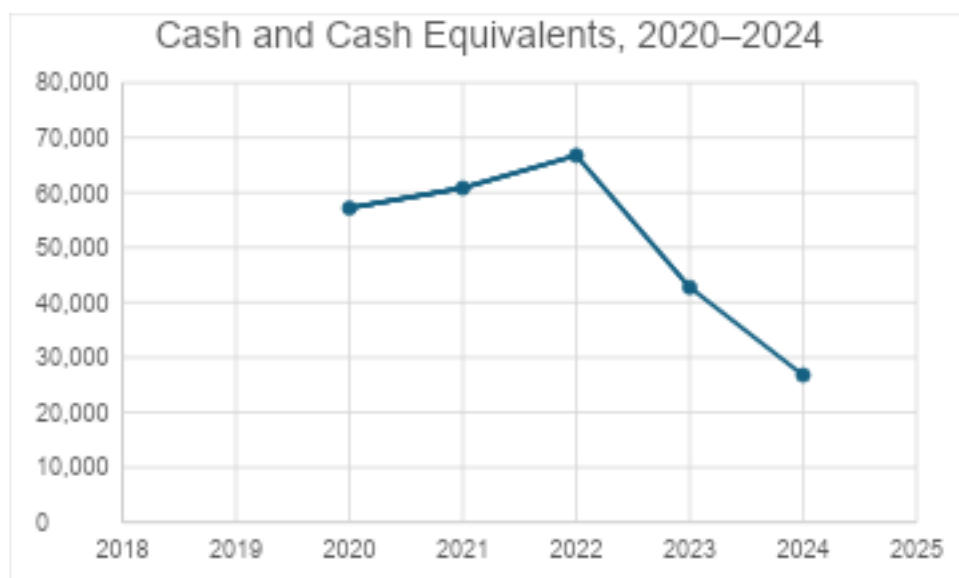


Figure: Cash and Cash Equivalents, 2020-2024

	Gross margin	Operating margin	Net margin	Current ratio	Quick ratio	Cash ratio	Inventory days	AR days	AP days	CCC	ROA	ROE	set turnov	Altman Z	X1	X2	X3	X4	X5
2024	0.286860836	-0.038738449	-0.060851552	1.513595648	1.030672136	0.169201028	103.1389911	105.5423	93.660171	115.0596	-0.07431	-0.15694	1.221197	2.819576	0.260405	0.644591	-0.04371	0.8993	1.221197
2023	0.23203324	-0.02207687	-0.23365741	1.606239593	0.95816736	0.265290292	99.78304272	97.74949	94.69171	133.0584	-0.27605	-0.5496	1.181484	2.241118	0.274545	0.653212	-0.02791	1.011122	1.181484
2022	0.285925758	0.026804188	0.000749883	1.561580428	1.054012371	0.330806348	131.0408135	75.55268	66.71928	139.8742	0.000807	0.001516	1.076539	3.062514	0.241126	0.655935	0.028856	1.138486	1.076539
2021	0.275921929	0.0386518	0.008811473	1.555749135	1.094313071	0.280519588	114.5187814	78.39647	78.95278	113.9626	0.010387	0.0121	1.178807	3.22459	0.235837	0.647188	0.045563	1.17762	1.078807
2020	0.286744322	0.060628294	0.0672135	1.822750993	1.494860981	0.31885398	100.2612768	76.85795	69.29042	107.8288	0.075588	0.013215	1.20457	3.637933	0.288724	0.636873	0.073031	1.590449	1.28857

Figure: Ratio

		Sales of cash and cash equivalents										Sales of property, plant and equipment										Sales of investments										Sales of other assets									
		Sales of cash and cash equivalents										Sales of property, plant and equipment										Sales of investments										Sales of other assets									
		Sales of cash and cash equivalents										Sales of property, plant and equipment										Sales of investments										Sales of other assets									
2024	334973	-7845	10394	22291	-25237	-3361	60	-95950	-5431	20420	26783	10432	10346	78355	747	250	242344	34420	20304	43322	445	22354	22011	36960	2027	5204	2008	152321	170245	257	344687	-4445	-23590	20441	18305						
2023	424527	-8405	97580	82891	-85301	-3321	-2621	-25224	-5944	-38232	42751	10236	42467	7325	3666	25883	44678	25348	36883	6787	57552	57033	55000	20355	5796	2181	61748	176293	253	339383	-4405	-21938	23240	18763							
2022	547151	-465	162392	137744	-4444	-2200	-9395	-10386	407	67843	12436	7956	14031	334	338043	67299	24710	2659	8242	510433	7173	88000	20004	6477	2174	236473	235751	259	320688	-4605	-2877	30398	26406								
2021	547151	-465	162392	137744	-4444	-2200	-9395	-10386	407	67843	12436	7956	14031	334	338043	67299	24710	2659	8242	510433	7173	88000	20004	6477	2174	236473	235751	259	320688	-4605	-2877	30398	26406								
2020	548600	-465	162392	138369	-37287	-4422	6000	13905	-5333	36672	17583	12343	9365	10470	334	338043	67299	24710	2659	8242	510433	7173	88000	20004	6477	2174	236473	235751	259	320688	-4605	-2877	30398	26406							

Figure: Financial Raw

