Credit analysis model

ILLUSTRATIVE SAMPLE — "Meridian Industrial Supply Co." is a fictional company. All figures, names, and conclusions are invented to demonstrate the structure and depth of a DYNA credit model, and do not represent a real company or engagement.

Entity	Meridian Industrial Supply Co.	Periods	FY2023 – FY2025 (audited)
Sector	Industrial distribution	Currency	USD (thousands)
Framework	US GAAP	Model ID	MODEL-8841-A / #a7f3

1. Executive summary

This model consolidates Meridian Industrial Supply's audited financial statements across three fiscal years into an integrated credit view — statements, common-size analysis, a full ratio set, and a credit dashboard. The picture is one of profitable growth under increasing financial strain: revenue rose 27% while margins compressed, leverage climbed, and the cash-conversion cycle lengthened materially.

Credit conclusion. Category B — acceptable but deteriorating. The business is liquid and cash-generative, but net debt/EBITDA has risen from 2.2x to 3.9x and interest coverage has fallen to 2.4x. The binding constraint is working capital: growth is being funded with debt because receivables and inventory are absorbing progressively more cash. New exposure should be structured against the asset base with covenant discipline, not extended as clean-limit term debt.

Model structure

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7. Credit dashboard	Key indicators and reading across periods

Conventions. In the working model, blue denotes hardcoded inputs, black denotes formulas, and red denotes an unfavourable indicator or loss. Figures here are presented as final values for illustration.

2. Balance sheet

USD thousands

Assets	FY2023	FY2024	FY2025
Cash & equivalents	3,100	2,850	2,420
Trade receivables, net	8,200	10,450	13,180
Inventory	9,600	11,800	14,250
Other current assets	2,600	3,100	3,620
Total current assets	23,500	28,200	33,470
Property, plant & equipment, net	12,400	13,100	13,800
Intangible assets, net	400	420	400
Deferred tax asset	600	750	900
Total assets	36,900	42,470	48,570

Liabilities & equity	FY2023	FY2024	FY2025
Short-term financial debt	4,200	6,800	9,100
Trade payables	6,100	7,200	8,400
Other current liabilities	1,400	1,600	1,850
Total current liabilities	11,700	15,600	19,350
Long-term financial debt	8,900	9,600	11,200
Other long-term liabilities	1,200	1,350	1,500
Total liabilities	21,800	26,550	32,050
Share capital	5,000	5,000	5,000
Reserves	500	600	700
Retained earnings	9,600	10,320	10,820
Total equity	15,100	15,920	16,520
Total liabilities & equity	36,900	42,470	48,570

3. Income statement

USD thousands

Item	FY2023	FY2024	FY2025
Operating revenue	42,150	47,820	53,640
Cost of operations	-31,200	-36,140	-41,560
Gross profit	10,950	11,680	12,080
Administrative expenses	-5,100	-5,480	-6,010
Selling expenses	-2,750	-2,940	-3,170
Operating profit (EBIT)	3,100	3,260	2,900
Financial expenses	-980	-1,340	-1,890
FX gain / (loss), net	45	-30	60
Other income / (expense)	20	15	-25
Profit before tax	2,185	1,905	1,045
Income tax	-568	-495	-272
Net income	1,617	1,410	773

EBITDA bridge	FY2023	FY2024	FY2025
Operating profit (EBIT)	3,100	3,260	2,900
Depreciation & amortization	1,420	1,510	1,640
EBITDA	4,520	4,770	4,540

Margins compress across the period even as revenue grows: gross margin falls from 26.0% to 22.5% and EBITDA margin from 10.7% to 8.5%, while interest expense nearly doubles — the combination that halves net income by FY2025.

4. Cash flow

USD thousands

Item	FY2023	FY2024	FY2025
Operating cash flow (OCF)	3,050	2,600	1,750
Investing cash flow (ICF)	-1,900	-2,100	-2,300
Financing cash flow (FCF)	-1,200	-750	120
Beginning cash	3,150	3,100	2,850
Ending cash	3,100	2,850	2,420
Change in cash	-50	-250	-430

Operating cash flow deteriorates sharply, from USD 3.05M to USD 1.75M, as the working-capital build consumes cash generated by operations. Financing turns positive by FY2025 as the company draws debt to bridge the gap — the mechanical link between the cash-cycle stress and the rising leverage seen elsewhere in the model.

5. Vertical analysis (common-size)

Balance sheet, % of total assets

Balance sheet	FY2023	FY2024	FY2025
Cash & equivalents	8.4%	6.7%	5.0%
Trade receivables	22.2%	24.6%	27.1%
Inventory	26.0%	27.8%	29.3%
Other current assets	7.0%	7.3%	7.5%
Property, plant & equipment	33.6%	30.8%	28.4%
Total liabilities	59.1%	62.5%	66.0%
Total equity	40.9%	37.5%	34.0%

Income statement, % of revenue

Income statement	FY2023	FY2024	FY2025
Gross profit	26.0%	24.4%	22.5%
Operating profit (EBIT)	7.4%	6.8%	5.4%
EBITDA	10.7%	10.0%	8.5%
Net income	3.8%	2.9%	1.4%

Common-size analysis isolates the margin story from the growth: on a percentage basis, equity thins from 42% to 34% of assets as liabilities grow — a balance sheet becoming more leveraged as it expands.

6. Financial ratios

Ratio	FY2023	FY2024	FY2025
Liquidity			
Current ratio	2.01x	1.81x	1.73x
Quick ratio	1.19x	1.05x	0.99x
Cash ratio	0.26x	0.18x	0.13x
Working capital (USD 000s)	11,800	12,600	14,120
Leverage & solvency			
Debt-to-equity	0.87x	1.03x	1.23x
Debt-to-assets	0.59x	0.63x	0.66x
Net debt / EBITDA	2.21x	2.84x	3.94x
Interest coverage (EBITDA)	4.61x	3.56x	2.40x
Profitability			
Gross margin	26.0%	24.4%	22.5%
EBITDA margin	10.7%	10.0%	8.5%
Net margin	3.8%	2.9%	1.4%
ROA	4.4%	3.3%	1.6%
ROE	10.7%	8.9%	4.7%
Efficiency & cash conversion			
DSO (days)	71	80	90
DPO (days)	71	73	74
DIO (days)	112	119	125
Cash conversion cycle (days)	112	126	141
Cash flow quality			
OCF (USD 000s)	3,050	2,600	1,750
OCF / net income	1.89x	1.84x	2.26x

7. Credit dashboard

Key indicator	FY23	FY24	FY25	Status	Reading
Current ratio	2.01x	1.81x	1.73x	Healthy	Adequate; above 1.5x
Net debt / EBITDA	2.21x	2.84x	3.94x	Attention	Rising toward 4.5x critical
Interest coverage	4.61x	3.56x	2.40x	Attention	Cushion eroding
Debt-to-equity	0.87x	1.03x	1.23x	Attention	Climbing on flat equity
EBITDA margin	10.7%	10.0%	8.5%	Attention	Compression trend
Net margin	3.8%	2.9%	1.4%	Attention	More than halved
ROE	10.7%	8.9%	4.7%	Attention	Falling
Cash conversion cycle	112	126	141	Critical	+29 days; funding drag
OCF (USD 000s)	3,050	2,600	1,750	Critical	Deteriorating sharply

Credit conclusion

Category B — acceptable, deteriorating bias. Meridian is profitable, liquid, and growing, but three indicators move together in the wrong direction: leverage (net debt/EBITDA 2.2x → 3.9x), coverage (4.6x → 2.4x), and the cash-conversion cycle (112 → 141 days). The common cause is a working-capital build outrunning internally generated cash, financed with incremental debt.

Recommendation. Support continued financing on an asset-backed, formula-governed basis with covenant discipline (net debt/EBITDA ceiling, coverage floor). Avoid clean-limit term debt at current leverage. Reassess on FY2026 results: two periods of margin stabilisation or an equity injection funding the working-capital gap would support an upgrade.