

April 2015

Volume 3 | Issue 4



Inside MIM

- Brief about MIM Group*
- Market Research*
- Leverage – The Double Sided Sword*



Tel: +971 4 321 5848

Fax: +971 4 321 5838

Website: www.mimcons.net

Inside MIM is a periodic newsletter written by MIM staff. It discusses key topics in management, consulting, auditing and accounting, etc. Since MIM is engaged in the field of management consultancies, our professionals have adequate expertise that they have gained through their years of experience at MIM. They therefore share their expertise and thoughts through this newsletter. Martin Cox & Associates, MIM sister company, is engaged in the field of auditing and accounting. Our professionals, through their experience in auditing and accounting, share updates, insights and information about auditing and accounting to keep you informed and up-to-date.

Subscribe to our newsletter online in order to stay current and receive notifications when newsletters are published and our latest news as well.

Website: www.mimcons.net

For any inquiries contact us:

Tel: +971 4 321 5848

Fax: +971 4 321 5838

Email: secretary@mimcons.net

Brief About MIM Group

MIM International Consultancies



- MIM is a specialized leading consultancy firm with over 33 years of experience in the field of feasibility studies and management consultancies serving the region's top organizations and governments.
- Our professionals are result-oriented and thrive on achieving clients' satisfaction which is the benchmark that measures our performance and success.

ASEL AL MAAYER Auditing & Consulting



- We offer a wide range of professional services in auditing & assurance, bookkeeping & accounting, and consultation services to small and medium sized organizations.
- Our professionals are highly educated and well trained, and are fully dedicated to serve our clients with due professional care and integrity. We do not just deliver reports; we make sure that our services will be a major contribution to your success and business development.

EBTIKARAT



- Ebtkarat is MIM representative office in Cairo, Egypt. Its core business is management and business consultancies.
- Our Ebtkarat team collaborates with MIM team in order to ensure the best quality services are provided to our clients to achieve our clients' satisfaction and maintain a long term business relationship.

EBTIKARAT Development



- Ebtikarat Development is a leading software house for developing desktop, websites and mobile applications, based in Egypt and Dubai. With the use of the latest information technology and telecommunication tools we achieve targets depending on a strong technical base and carefully selected expert resources.

Minimize business loss: With market research, you can reduce the chances of loss to a large extent. Before launching a product, you can identify potential problems and even determine the solutions. The research carried out after the launch of a new product can help you find loopholes and devise plans to counter that loss and increase the profits.

Why Companies Require Market Research?

Here is why your company should conduct business market research:

- Identify the problem areas in your business
- Understand the needs of existing customers & why they chose you over competitors
- Identify new business opportunities and changing market trends
- Recognize new areas for expansion, and increase your customer base
- Discover potential customers & their needs, which can be incorporated into your products/services
- Set achievable targets for business growth, sales, and latest product developments
- Make well-informed market decisions about your services and develop effective strategies

Marketing research is needed on a continual basis, if you want to keep up with the latest market trends and gain a competitive edge in the business market. Understanding market research and using it to your advantage is vital in reaching out to your target audience and increasing your sales.

Usama Masood

Auditor

Asel Al Maayer



u.masood@mimcons.net



'LEVERAGE' – The Double Sided Sword

Leverage as a verb means to use (something) to maximum advantage. In financial terms it means to use the borrowed capital for (an investment), expecting the profits made to be greater than interest payable.

Let us look at it with this simple example:

Suppose you found a great studio apartment in a prime location of Dubai for sale. The cost of the apartment is AED 1 Million. You approach the bank for a property loan and they agreed to give you 85% of the cost of the property with a tenure of 25 years (300 Months) equal monthly installments including an interest rate of 5% per annum. The monthly payment would be AED 6,375/- per month (Do your calculations). So you get AED 850,000/- as loan and you invest 150,000/- of your own to buy the property for AED 1 Million. Then suppose you find a tenant and rent the property for AED 120,000/- Per Annum (AED 10,000/- Per Month).

At the end of the first year you found that you had paid AED 12,000/- during the year for Repairs, Maintenance and other expenses for the apartment. Then your profit before payment of interest during the year is AED 108,000/-. You paid the bank an amount of AED 76,500/-. You have had a net cash inflow of AED 31,500/- during the first year, which means your Cash ROI on down payment of AED 150,000/- is 21%, whereas return on your total project is only 11% (Note : Here the Cash on Cash ROI is considered, i.e not considering the ownership portion gained through repayment of principal loan.)

In the above case you gain 10% more return just because you had taken a loan, and more over you could have invested the rest of your capital elsewhere and earned even more. This is because interest is a fixed amount that you have to pay no matter what your return is. So it is highly advisable to use maximum debt in any project where the return is expected to be marginally higher than interest rate.

Caveat, it might work against you as well. Check out the Case 5 in the table below, where your ROI on total investment is 8% but your Leveraged ROI is only 5%, which means you would have earned more had you taken no loan. In that case, there is actually no leverage or it is negative.

Since interest is fixed amount, creditors are not interested in profitability of your investment or business, at least not as much as equity investors who had provided you funds expecting a share of profit. Equity investors demands higher returns for bigger risks taken by them. Thus cost of raising funds through equity is higher compared to debts. On the other hand the risk of raising fund through debt is higher compared to equity as you are obliged to pay the interest according to the repayment terms, no matter if your business is making any profit or not.

So in businesses which, returns are highly fluctuating and hard to predict, the capital structure should be designed wisely taking into consideration the various risks and benefits associated with it.

Table showing ROI on Project and Leveraged ROI on a debt of 85% for a project that requires 1 Million Investment at different levels of revenue.

Ref.	Particulars	Case 1	Case 2	Case 3	Case 4	Case 5
(1)	Annual Rent	120,000	114,000	108,000	102,000	96,000
(2)	Repairs & Maint. Exp	12,000	12,000	12,000	12,000	12,000
(3)	Operating Profit = [(1) - (2)]	108,000	102,000	96,000	90,000	84,000
(4)	ROI on Project = [(3) / 1,000,000]	11%	10%	10%	9%	8%
(5)	Annual Interest (5% of 850,000)	42,500	42,500	42,500	42,500	42,500
(6)	Profit After Interest = [(3) - (5)]	65,500	59,500	53,500	47,500	41,500
(7)	Annual Repayment towards principal (850,000 / 25 Years)	34,000	34,000	34,000	34,000	34,000
(8)	Total Annual Payment to the bank = [(5) + (7)]	76,500	76,500	76,500	76,500	76,500
(9)	Net Cash In/(Out) Flow = [(6) - (7)]	31,500	25,500	19,500	13,500	7,500
(10)	Leveraged ROI = [(9) / 150,000]	21%	17%	13%	9%	5%

Falah Mustafa

Audit Executive
Asel Al Maayer



falah.m@mimcons.net