

SME Bank Finance



Opportunities for CA's

B.L. Maheshwari, Director

- Euro Corporate Services Pvt Ltd

AREAS

- Preparation of Loan Application
- Preparation of CMA
- Preparation of DPR
- Planning / Structuring of Bank Finance
- Assistance in Credit Rating
- Syndication of ;
WCL, TL, ECB, CP, BC, LBD (Factoring)
etc.
- Assistance in Submission of Bank Papers;
 - a) Monthly Stock & Book Debts Statement
 - b) Quarterly & Half Yearly Statement
- Debt Restructuring /Stress Assets Funding



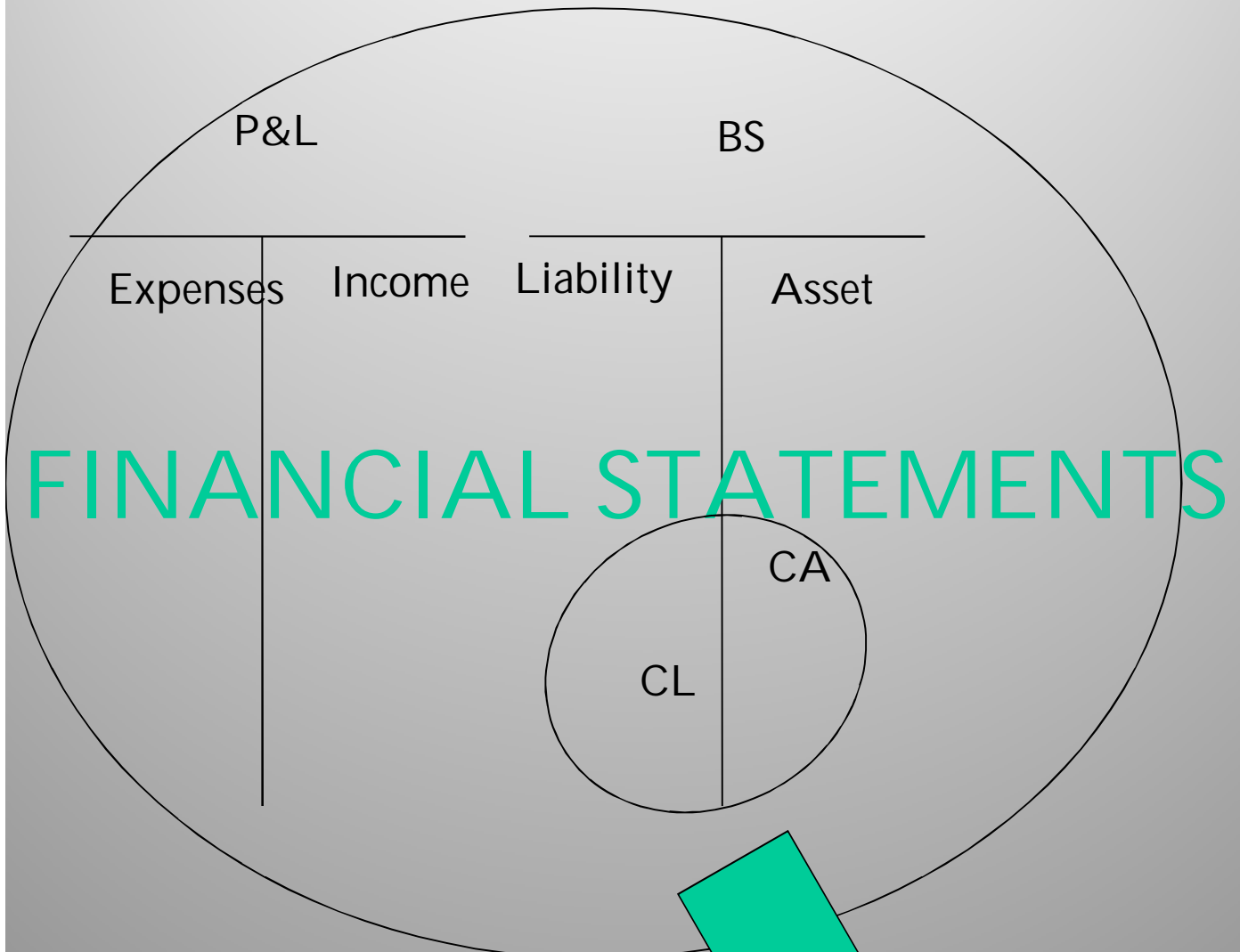
Case Studies

Particulars	F.Y.2011-12		F.Y.2012-13		F.Y.2013-14	
	<i>Audited</i>		<i>Audited</i>		<i>Provisional</i>	
<u>Equity and Liabilities:</u>						
Share Capital		6.31		6.31		6.31
Reserves & Surplus		16.95		22.90		37.30
Non- Current Liabilities		37.69		27.14		42.35
		60.95		56.35		85.96
<u>Current Liabilities:</u>						
WC from Banks	8.98		13.59		0.97	
other current liabilities	38.17	47.16	41.28	54.87	37.69	38.66
<i>Total</i>		108.11		111.22		124.62
<u>Assets:</u>						
Fixed Assets		68.21		66.33		61.90
Investments/ long term advances		5.11		6.17		15.86
		73.32		72.50		77.76
<u>Current Assets:</u>						
Inventory	8.43		6.96		8.40	
Other current Assets	26.36	34.79	31.76	38.72	38.46	46.86
<i>Total</i>		108.11		111.22		124.62
Gross Turnover		121.38		131.22		155.30
EBIDT		14.01		17.38		30.00
PAT		4.47		6.32		14.38
<u>Ratios:</u>						
Current Ratio		0.74		0.71		1.21
Acid Test Ratio		0.56		0.58		0.99
Debt Equity Ratio		1.62		0.93		0.97
TOL/TNW		3.65		2.81		1.86
Rating				BB-		BBB-

Particulars	F.Y.2011-12		F.Y.2012-13		F.Y.2013-14	
	<i>Audited</i>		<i>Audited</i>		<i>Provisional</i>	
<u>Equity and Liabilities:</u>						
Share Capital		17.18		17.18		17.18
Reserves & Surplus		8.41		13.03		19.71
Non- Current Liabilities		15.54		13.72		18.90
		41.13		43.93		55.79
<u>Current Liabilities:</u>						
WC from Banks	4.62		7.36		9.50	
other current liabilities	34.52	39.14	37.42	44.78	42.05	51.55
<i>Total</i>		80.27		88.71		107.34
<u>Assets:</u>						
Fixed Assets		31.78		31.01		31.60
Investments/ long term advances		5.85		14.00		11.00
		37.63		45.01		42.60
<u>Current Assets:</u>						
Inventory	7.80		9.36		10.06	
Other current Assets	34.84	42.64	34.34	43.70	54.68	64.74
<i>Total</i>		80.27		88.71		107.34
Gross Turnover		78.04		98.13		157.88
EBIDT		8.35		8.11		11.98
PAT		4.68		4.71		6.67
<u>Ratios:</u>						
Current Ratio		1.09		0.98		1.26
Acid Test Ratio		0.89		0.77		1.06
Debt Equity Ratio		0.61		0.45		0.51
TOL/TNW		2.14		1.94		1.91
Rating				BBB-		BBB

Financial
Ratio Analysis
&
Working Capital
Assessment Process

Financial Statement



Liquidity Ratio

Current Ratio

- Decrease of Current Ratio:
 - Decrease of Current Asset more than the decrease in current liability :
 - Decrease in current asset from higher holding level to normal holding level;
 - Cash realised used for pay off term liability for reduction of interest amount ; (Ref – M. Ltd)
 - Current ratio to be maintained above 1.33 ;

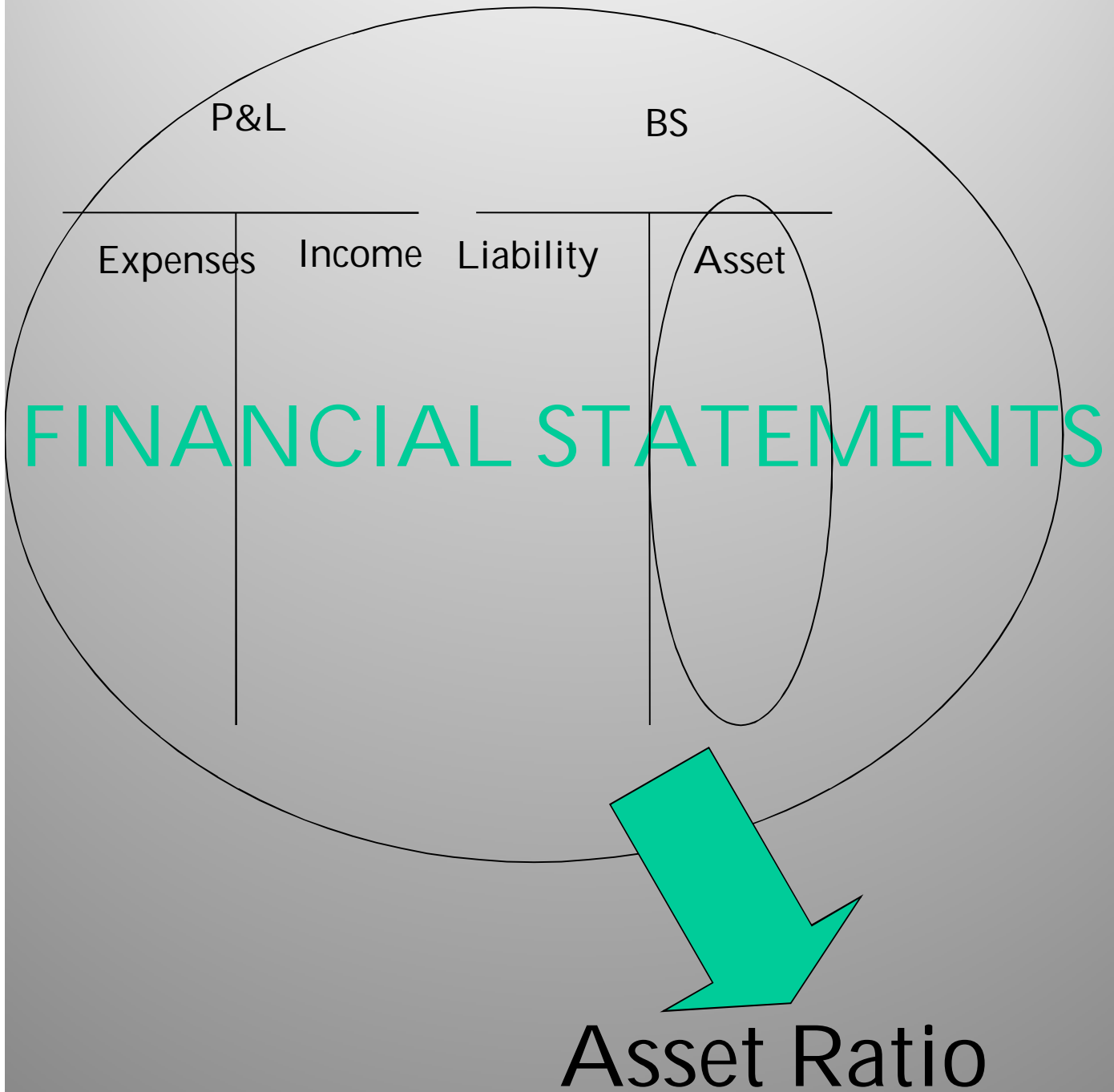
Current Ratio

- Decrease of Current Ratio:
 - Increase in Current Asset is less than increase in current liability :
 - Current Liability is used for funding of long term assets; (Ref – S. Ltd)
 - Current Liability is used for repayment of long term liability ; (Ref – S. Ltd)

Important Ratios-Assets

- Fixed Assets :
 - Increase is due to purchase of fixed asset ;
 - Fixed asset can be land also ;
 - Purchase of land along with decrease in current ratio is not desirable;
 - Need elaborate comment ;
 - Purchase of plant and machinery with decrease in current ratio is also not desirable ;
 - Need elaborate comment ;
 - Process of rectification need to be planned :
 - Long term fund injection;

Financial Statement



Important Ratios – Assets

- Current Assets :
 - Inventory :
 - RM : Months of Consumption
 - WIP: Months of cost of production
 - FG: Months of cost of sales
 - Receivable : Months of sales
 - Other Current Asset : % of total current asset

Important Ratios – Asset

- Increase in holding level of Raw Material :
 - Due to large order at hand at the end of the year;
 - Due to year end bulk discount; Always should be explained in the following pattern :
 - Discount amount :
 - Inventory carrying cost + Financing Cost :
 - Net savings :
 - Due to wrong purchase :
 - Speculation
 - Explain the reason for wrong purchase ;
 - Explain the time frame of recovering the money ;

Important Ratios – Asset

- Increase in holding level of WIP :
 - Due to large order in hand at year end ;
 - Due to wrong production planning :
 - Due to increase in price ;
 - Due to inefficiency of machines :
 - Replacement is required and fixed asset accretion should be explained ;

Important Ratios – Asset

- Increase in holding level of FG :
 - Due to large order at hand at year end ;
 - Due to wrong production planning :
 - Due to increase in price ;
 - Due to wrong order taking & customer cancelled / rejected the order ;

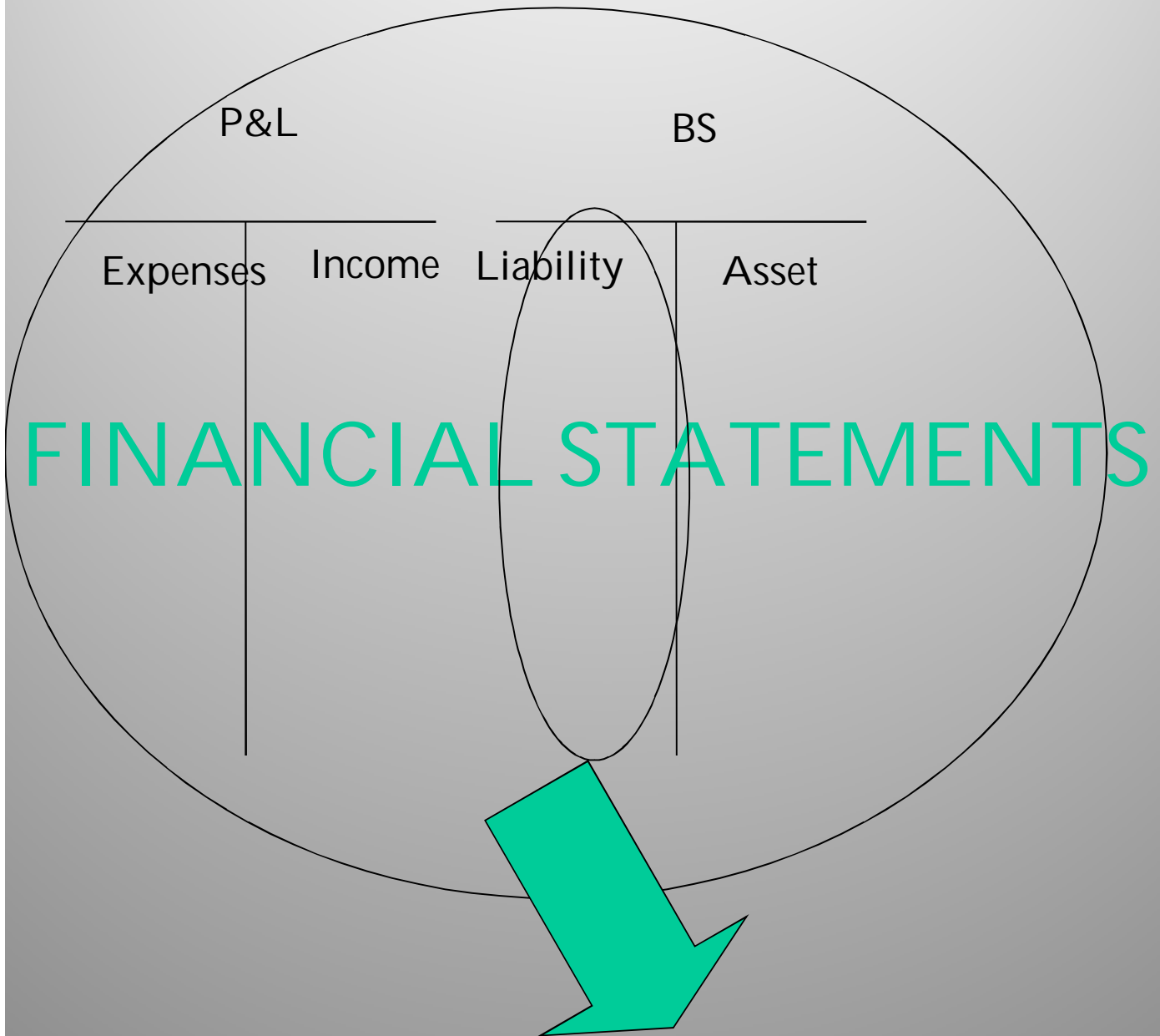
Important Ratios – Asset

- Increase in Receivable holding level
:
 - Increase is due to general macroeconomic situation :
 - Segregation of increased receivable in different customer wise;
 - More than 90 days ??
 - Steps taken to reduce the receivable level;
 - Bill discounting ;

Important Ratios – Asset

- Increase in Other Current Asset level :
 - Loans and advances :
 - Group Company
 - Advances to Employees : Channel for taking the money to group company ;
 - TDS and advance tax paid : If outstanding for more than 1 year , comment on any cases outstanding ;
 - Bank FD : Guarantee or LC outstanding and FD outstanding ;

Financial Statement



Leverage Ratio

Important Ratios – Liability

- TOL/TNW : Lower : Debt lender - more comfortable position ;
- TOL/ TNW is increasing :
 - TOL is increasing to build up more asset ;
 - Unsecured loan can be treated as quasi equity ;
 - More unsecured loan /Eq to be infused ;
 - Unsecured loan can be treated as surrogate profit;

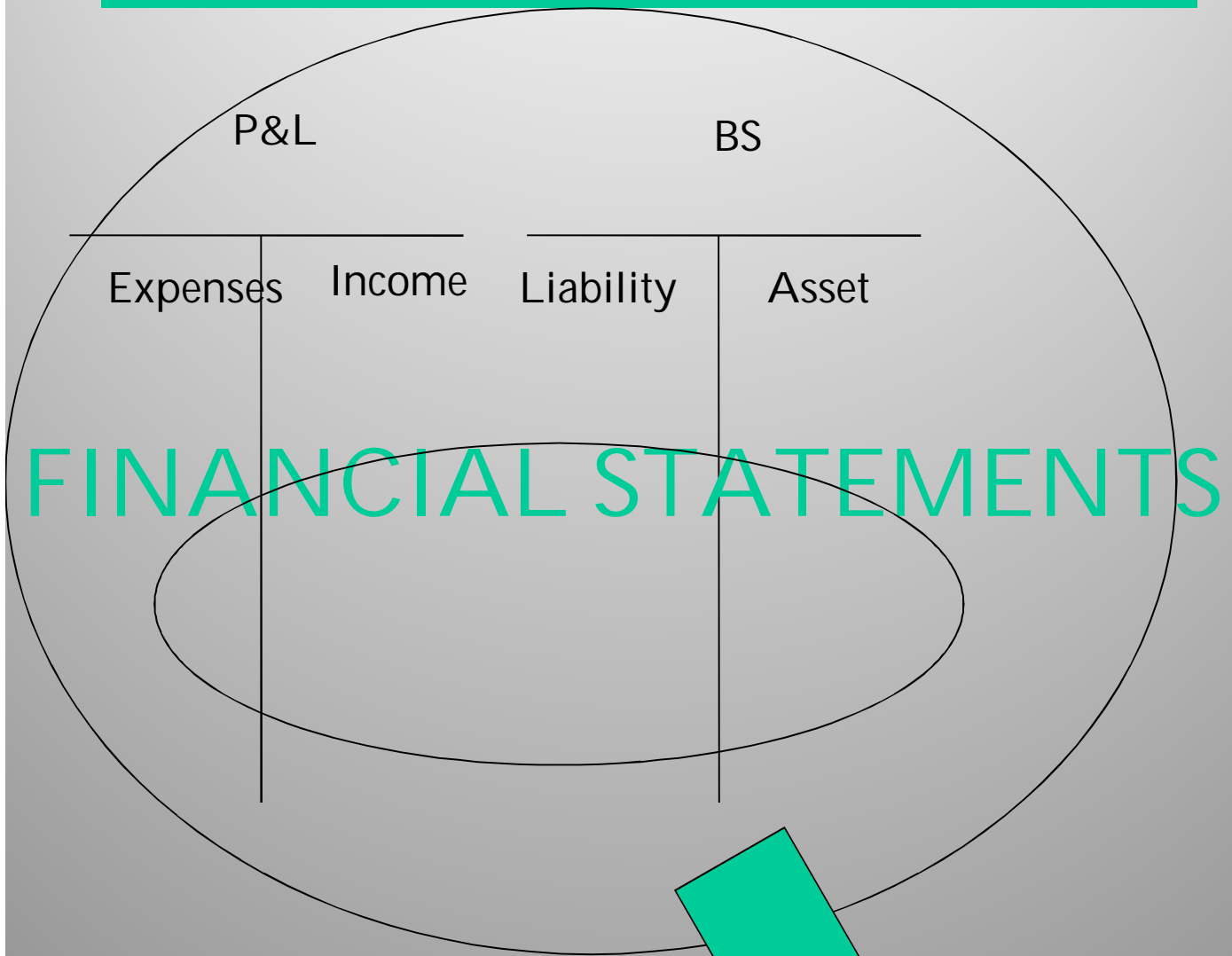
Important Ratios – Liability

- Debt / Equity :
- Lower debt / equity means that the company has the potential to borrow more in the form of long term debt :
 - Can undertake more project ;
 - Can fund its working capital from long term loan ;
- Higher Debt/ Equity : Difficult to give term loan ;
 - Convert some of the unsecured loan to equity

Important Ratios – Liability

- Long term liability / Current liability :
Though bank borrowing is current liability , banks hardly recall the loan
 - More of permanent in nature;
- Emphasis should be on other current liability side;
 - More other current liability means more costly;
- May explore reduction of cost by providing fund based or non fund based facilities .

Financial Statement



FINANCIAL STATEMENTS

ROCE, ROA, ROE, EBITDA

Analysis of Expenses – Appraisal

- Justification of estimates and projections of major expenses in terms of proportionate sales .
- Explore the possibilities of reduction of expenses specially in terms of purchase of raw material;
- Concept of trade credit should be explored
- Go to annexure and look for FX transaction ;
- If import is there, you can fund trade credit(BC);
- This would in turn reduces the expenses.

