

SME Corporate Credit Analysis

A three-day workshop to build analytic skills using a structured approach to the analysis of SMEs*. There is a focus on issues critical to SMEs, such as: Owner-Manager aims and goals, the challenges of MIS, using Key Performance Indicators and SME liquidity challenges and funding products.

TARGET AUDIENCE

Relationship managers, credit risk management professionals and advisors involved in the provision of credit and related products to SMEs.

COURSE OBJECTIVES

The overall goal of this intensive 3 day programme is to build analytic skills, using a structured and systematic approach to evaluate the credit standing and future outlook of an SME*. The course will demonstrate how to combine a qualitative assessment of the company and its management with a quantitative analysis (ratio and cash flow tools) of performance. Participants will use simple and effective forecasting tools to assess and anticipate SME performance.

Specifically participants will be equipped to:

- Assess the credit worthiness of SME borrowers using a 4-step approach: Purpose, payback, risks and structure.
- Evaluate the commercial viability and sustainability of the business model and management's ability to deliver to plan.
- Use a forecasting model to anticipate a company's future performance, sensitise and critique assumptions, and interpret their impact on credit outlook and ability to service its debt as it comes due.
- Identify signs of credit deterioration, evaluate their potential impact and consider alternative courses of action.
- Understand the key funding sources available to SMEs and their impact on credit worthiness.
- Build robust monitoring, KPI and covenant packages to meet the commercial needs of the company and provide protection to the lender.

This programme makes use of an Illustration case study, live examples and exercises to ensure that the training is highly interactive, practical, topical and challenging. The course materials are drawn from a number of industries and provide participants with the opportunity to practise the application of the analytic frameworks and tools in context. The emphasis is on developing critical judgement; participants are required to be focused, practical and realistic in their approach.

* Small and Medium Sized Enterprise (SME): Typically a company with sales or revenue up to £100 million or a balance sheet totalling up to £90 million, with fewer than 500 employees, which is not part of a larger enterprise.

CONTENT

ANALYTIC OVERVIEW

Structured approach to analysis

- A framework for credit assessment: purpose, payback, risks and structure
- Purpose:** determining the type of borrower and use of funds
- Payback:** identifying primary and secondary sources of repayment
- Risks to repayment:** current market conditions and their impact on risk assessment due to key macro, sector and/or company specific considerations
- Structure:** assessing the appropriateness of the debt structure to meet the commercial needs of a company while protecting lenders' interests.

RISK I: MACRO CONSIDERATIONS

The operating environment

- Impact of general macro variables on an SME's performance: cyclical: social and political considerations, government regulations, taxation and licensing requirements etc.

Sector

- Understanding the structure, key players and growth drivers of a sector
- Determining sector profitability and key financial drivers
- Identifying critical success factors that need to be addressed by an SME and indicators of vulnerable companies.
- RISK II: MANAGEMENT AND OWNERSHIP**
- Management competence and integrity in an SME: what are we looking for?
- Owner-Manager's aims and goals: their effect on the company's creditworthiness
- Different types of SME ownership; evaluating owners' support and influence
- Stakeholders' support: how sustainable and reliable in difficult times?
- Using MIS effectively: interpretation and shortcomings
- Creating a template for information requirements.

RISK III: BUSINESS RISK

Business strategy and earnings dynamics

- Understanding a company's business dynamics, market position and strategy and its Unique Selling Points and sustainability
- Building expectations about balance sheet and income statement performance
- Analysing sales and profitability: trend and peer analysis
- Quantifying performance looking beyond EBITDA: defining, calculating and using operating cash flow to analyse profitability
- Using Key Performance Indicators to measure success and monitor performance
- Measuring the success / shortcomings of the business model: sales and operating profitability, sources of operating cash flow, trend and general industry benchmarks.

Asset investment

- The importance of working capital management: definitions and impact on cash flow
- Using cash budgeting to quantify the impact of supplier and buyer credit terms on the financial health of an SME
- Commodity exposures: impact on working capital management and operating margins
- Understanding the nature of capital expenditures and anticipating capex needs
- Key ratio and cash flow indicators to evaluate asset efficiency and estimate free cash flow
- Use of trend and peer analysis to assess and compare performance
- Deriving a cash flow statement based on a SME's balance sheet and profit and loss statement.

RISK IV: FINANCIAL RISK

Financial strategy

- Understanding SME's owner-manager objectives: income requirement, access to external funding and liquidity needs
- Using the level of business risk to gauge the appropriate level of financial risk
- Impact of reduced availability of capital on funding structures and risk.

Financial flexibility and liquidity

- Quantifying and measuring liquidity: ratio and cash flow tools
- Balancing liquidity needs and concerns during uncertain economic times
- Use of account information to detect liquidity problems
- Hard core borrowing: symptom or cause?
- Refinancing risk: evaluating payment readiness, contingency liquidity and the impact of short dated debt maturity profiles of SME's.

Solvency and debt service capability

- Key ratio and cash flow benchmarks for evaluating solvency and debt servicing ability
- Using cash flow forecasts to assess debt service capability
- Identifying information gaps: building robust assumptions
- Forecasting and sensitising key business variables and quantifying their impact on debt servicing
- Assessing debt capacity based on present value of cash flow available for debt service.

Financial instruments

- Understanding the effect of credit insurance, supplier credit or shareholders loans on a SME's financial position.

STRUCTURE

Assessing the debt structure

- Debt profile: assessing the appropriateness of the structure in terms of amount, currency, maturity and type of financial instrument
- Ranking: legal, structural and constructive subordination
- Assessing the need for collateral to achieve seniority
- Impact of shareholder loans on lenders – the use of subordination / inter-creditor agreements
- Safeguards: the use of documentation and covenants to mitigate risk
- Credit pricing: evaluating the risk ~ return profile of the transaction.

Learning Paths



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