

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

Participants will be equipped to:

- Assess the creditworthiness 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 / critique assumptions, and interpret their impact on credit outlook
- 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 creditworthiness
- Build robust monitoring, KPI and covenant packages to meet the needs of the company and provide protection to the lender.

This programme makes extensive use of case studies, live examples and exercises to ensure that the training is highly interactive, practical, topical and challenging.

CONTENT

ANALYTIC OVERVIEW

Structured approach to analysis

- Purpose: determining the type of borrower and use of funds
- Payback: identifying primary / secondary sources of repayment
- Risks to repayment: current market conditions and their impact on risk assessment
- Structure: assessing the appropriateness of the debt structure to meet company needs while protecting lenders' interests.

RISK I: MACRO CONSIDERATIONS

The operating environment

- Impact of general macro variables on an SME's performance.

Sector

- Understanding the structure, key players and growth drivers
- 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
- Owner-Manager's aims and goals
- Different types of SME ownership
- Stakeholders' support: how sustainable and reliable?
- 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: financial statements and 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.

Asset investment

- The importance of working capital management
- 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 and margins
- Understanding current and future capital expenditures needs
- Key ratio and cash-flow indicators to evaluate asset efficiency
- Use of trend and peer analysis
- Deriving an SME cash-flow statement.

RISK IV: FINANCIAL RISK

Financial strategy

- Understanding an SME's Owner-Manager objectives
- Using business risk to gauge the appropriate level of financial risk
- Impact of reduced availability of capital on funding structures.

Financial flexibility and liquidity

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

Solvency and debt service capability

- Ratio and cash-flow benchmarks: solvency and debt servicing
- Using cash-flow forecasts to assess debt service capability
- Identifying information gaps: building robust assumptions
- Forecasting and sensitising key business variables
- Assessing debt capacity based on present value of cash-flow.

Financial instruments

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

STRUCTURE

Assessing the debt structure

- Debt profile: appropriateness of 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: documentation and covenants to mitigate risk
- Credit pricing: evaluating transaction risk ~ return profiles.

* Small and Medium Sized Enterprise (SME): Typically a company with 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.

