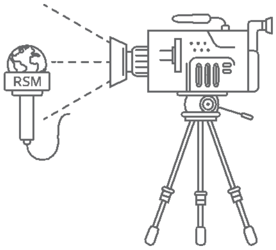
Wake Up Call

RSM

Bank Financing Strategy

Debt financing is often an important part of growing a business. While the process of obtaining debt financing is considered simple, there are basic issues that need to be understood and considered.



Competition is an inevitable fact for a company in running the business. Growing a business is already a requirement for companies not only to compete but to survive. To Grow or Die!

In funding the growth, companies have two sources of funds – Equity and Debt. Each type of funding has their own cost and benefit. Assuming shareholders have limited capacity on equity and a debt to equity ratio is still maintained, debt funding would be the choice.

Debt funding basically has two types – Banks or other financial institutions and bonds or Medium Term Notes (MTN). Each of them also has their own cost and benefit. We would need to assess which option would be the most beneficial for a company under the circumstances.

Assuming you have assess the cost and benefit and decided that Bank financing is the most beneficial choice, than there are several major issues we need to address in order to be successful in raising the fund.

Put ourselves at the bankers' perspective, we need to understand the main aspects they would need to consider in reviewing a funding project. The first aspect would be the company reputation; in particular company's lending history. This assessment is a starting point of any credit analysis procedure since it will reveal company's track record and character of the ultimate shareholders/ sponsors.

Furthermore, the company's experience in its current business operation will be other criteria. Usually, banks expect the sponsors to have at least 2 (two) years of experience. We will need to support documents including Certificate of Association, audited Financial Statements, and transactions records as per Bank Statements.

Preparing a comprehensive business plan including financial statements projections with positive cash flow projection, loan facility structure, the availability and quality of collateral, profile of the key person that run the company and supported with proper company's legal & other commercial data are very crucial for a successful funding. For green field projects, bank always require feasibility study as a requirement of data completeness.

Other operational risks that would be addressed will include assessment of the availability of raw materials, technology and consumers. We can mitigate this by preparing binding contracts between the company and stakeholders such as suppliers, vendors, and customers. In some projects bankers will insist to have proper Off-take Agreements.

Some banks have different exposures and appetite in each business sector. Finding the right banks with the good exposures and appetite in the manufacturing sectors would also need to be considered. Several banks might decide to reduce their exposures in coal while increasing exposures in infrastructure for example. Further, size of the proposed debt will also determine the right banks to be approached.

Lastly, we would need to convince the bank that we do know the business very well and have good experience or exposures with the specific business model. So financial, operational, and performance risks would likely be addressed and mitigated.

KEY POINTS

- Character and reputation are the starting points for banks to perform credit analysis of the company.
- Preparing a comprehensive business plan including financial statements projections are very crucial for a successful funding.
- Finding the right banks with the good exposures and appetite in certain sectors would also need to be considered.
- Having contracts with suppliers to ensure availability of raw materials as well as off-take contracts with customers is also a critical factor.

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