Credits and risk analysis

Corporate finance (narrow)

1. The optimal capital structure (OF/TB)
2. Composition debts (ST versus LT)
3. Wich credit forms
4. Risk analysis
5. Collateral
6. Composition OF (VC/BA/fff/capital)

1. Optimal capital structure

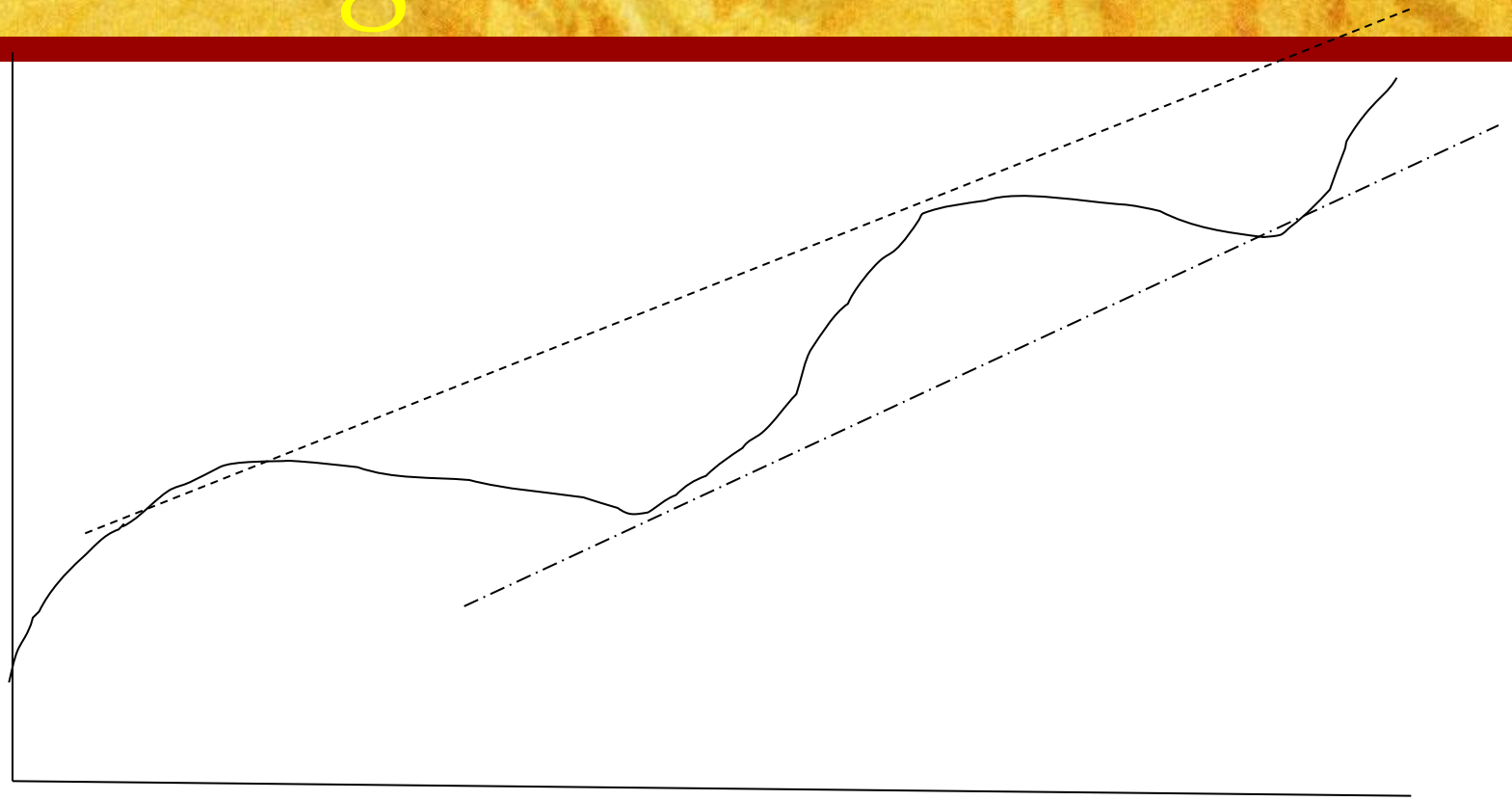
- Miller-Modigliani
- Three theories:
  - Target adjustment (more profits, more debts)
  - Agency model (more CF, more Debts)
  - Pecking order (more CF, less Debts)
- Comment: trade-off:

  More debts, more fixed costs, risk on illiquidity, volatility of profits, high payout

2. Long versus short term

- Hedger
  - LT credit needs with LT credits
  - KT credit needs with ST credits
  - Rentable (precise volume/iST lower)
  - Risk (monitoring/uncertainty)
- Averter
  - LT needs LT credits
  - KT needs with LT credits
  - Not rentable: too much credits/iLT higher
  - No risk

Hedger versus averter



3. Credit forms

1. Suppliers
2. Bank credits LT
   - Investment credits
   - Leasing and financing
3. Bank credits ST
   - Overdraft
   - Straight loans
   - Discount credits

3.1. Suppliers

- Policy = f (economic situation/sector/competitive position)
- Decision to take::
  - Credit period
  - Credit insurance
  - Credit line
  - Collection strategy
  - Financing decision
  - Discount for cash payment (i/100-i x 360/xd)

3.2. Bank credits ST

- Overdraft (cash credit):
  - Popular
  - Cost = f (use)
  - I = BI + margin + provision HD + penalty interest
  - Every trimester
- Discount credits
  - Fixed amount – fixed period
  - Discount technique (ex ante)
  - I = BIBOR +
- Factoring

Reverse Factoring Service

1. Supplier ships goods and presents invoices to customer as per their existing process.

2. Customer approves Supplier's invoice for payment using existing approval process.

3. Customer instructs Bank to electronically pay the Supplier on a future due date.

4. The supplier is paid the value of invoice less 'Discount' charge to a nominated account

5. Customer pays bank for the amount of the payment on the future due date.

BANK

Suppliers benefit from early visibility, certainty of payment and financial flexibility

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3.3. Bank credits LT

- Investment credit
  - Financing of investment
  - Fixed pay back (or bullet)
  - Interest payable amount
- Financing
  - Fixed assets
  - Monthly fixed amount: : $i(j) = (i(m) \times 24 \times n)/n+1$
- Leasing

4. Risk analysis

1. Financial elements
   - stable, permanent CF (= pbc)
   - Optimal financial Structure : OF, OF/BT
2. Payment incidents (Be 10% > 120 d.)
3. Accurate and timely information
4. Activity and position in the sector
5. Risk-attitude of management

5. Guarantees

- Equal treatment principle
- Guarantee = priority on other debtors
- Notoriety: 25 to 35 % of OF
- Main guarantees:
  - Mortgage
  - Pledge on business
  - Personal guarantee

6. Risk analysis: model

- Total requested credits:
  - Of which 1st Rang risk
  - Of which 2nd Rang risk
- Guarantee
  - Of which 1ste Rang guarantees
  - Of which 2nd Rang guarantees
- Non covered risk (LGD)
- Maximum risk on notoriety

7. CASE: NV Papaya

- De NV Papaya (p 21 – 22) asks an investment credit of 5 Meuro (to restore positive working capital)
- You are risk analyst: Make your risk-analysis
- Develop a concrete proposal:
  - Term, Reimbursement, Guarantees
- Determine risk 1st and 2nd rang
- Do you accept request?