Case Study: Line of Credit Analysis for a CFO

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The Challenge

Sam is the CFO of an electronics company. The company meets nearly 50% of its working capital requirements through a credit line from a bank. Sam wanted to analyze cash flows to predict the credit line requirements for the next year.

Impact

Armed with this information our client successfully negotiated a new credit line that would allow the company to make the investments as planned.

Variables

What are the underlying factors influencing the credit line requirements?

What if Analysis

How will my requirements change if my budget is off by x%?

COLLECTIONS	
In the month of Sales	12%
One month after Sales	65%
Two months after sales	23%
Early Pay Discount	2%
Bad Debt Expense	3%

PAYMENTS	
Admin Salaries	$ 450
Lease Payment	$ 140
Miscellaneous Expenses	$ 165
Income Taxes	$ 350
Raw Material (RM) as % of Sales	30%
RM - First Installment %	65%
Labor as % of Sales	30%
Labor - First Installment %	60%

OTHER VARIABLES	
Line of Credit (LoC)	$ 3,500
Outstanding Bonds	$ 5,000
End of Month Cash Balance	$ 250
Dividends Paid Out	$ 85
Annual Return on Preferred Stock	7%
Ending Cash Balance - December	$ 200

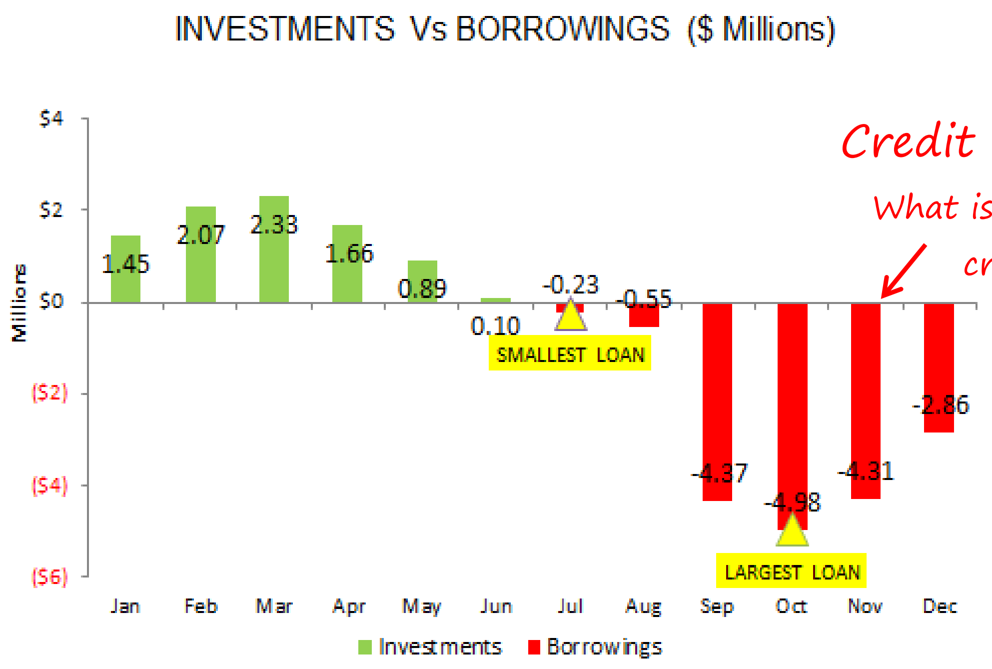
INVESTMENTS	
New Distribution center	$ 3,500
Month	Sep-14

INC/DEC FORECAST BY 1%	
Jan-14	9%
Feb-14	4%
Mar-14	4%
Apr-14	0%
May-14	9%
Jun-14	0%
Jul-14	6%
Aug-14	0%
Sep-14	6%
Oct-14	12%
Nov-14	0%
Dec-14	18%

INC/DEC ACROSS MONTHS		
INCREASE	by	12%
DECREASE	by	18%

GOAL SEEK FOR LoC	
Seek Dec Cash Balance	SET
Seek Annual Return %	SET

KEY METRICS	
Largest Loan	$ 4,977
Smallest Loan	$ 230
# Months borrowings > LoC	3



Credit Requirement

What is the maximum credit line?

Our Model

We built a model that uses cash flow drivers, revenues and costs, as inputs. The model projected cash flows and the maximum credit line required. The model allows What-If and scenario analyses like if sales of the company improve or if additional funds from sale of investments were available or if better credit terms materialize.

The CFO acquired the flexibility of making investments as and when required without risking company's liquidity position.

Perceptive Analytics

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