

DECODING YEAR END FINANCIAL STATEMENT FROM BANKER'S PERSPECTIVE



WHY IT IS NECESSARY TO UNDERSTAND BANKERS ANGLE WHILE FINALISING BALANCE SHEET



- The Audited Balance Sheet of last date of Financial Year, ONLY, matters for Bankers.
- Audited Balance Sheet has impact on Internal Risk Rating (IRR) and External Risk Rating (ERR) of the organization's Loan
- IRR and ERR has great weightage on Pricing of Bank Loans
- The eligibility criteria with respect quantum of loan is also decided upon on the basis of Balance Sheet

IMPACT OF BALANCE SHEET ON RATE OF INTEREST

SPREAD OVER BENCHMARK RATE ON THE BASIS OF RATING

	AAA	AA	A	BBB	UNRATE D	BB AND BELOW
A1	0.35	0.40	0.45	0.55	0.70	2.20
A2	0.40	0.45	0.50	0.60	0.75	2.25
A3	0.70	0.80	0.90	1.00	1.15	2.60
A4	1.25	1.30	1.35	1.45	1.60	3.15
B1	1.75	1.80	1.85	1.95	2.10	3.15
B2	2.65	2.75	3.10	3.70	3.95	4.55
B3	4.55	4.60	5.00	5.15	5.15	5.15
C	5.15	5.15	5.15	5.15	5.15	5.15

IMPACT OF CHANGE IN ROI

The difference in Amount of Interest on Credit Facility of Rs. 1000 Lakhs

Rating for externally unrated	Incremental ROI above Benchmark	Incremental Interest
A1	0.70%	-
A2	0.75%	50,000/-
A3	1.15%	4,00,000/-
A4	1.60%	4,50,000/-
B1	2.10%	5,00,000/-
B2	3.95%	18,50,000/-
B3	5.15%	12,00,000/-
C	5.15%	-

RATIOS WHICH MATTER FOR BANKING

- Current Ratio – 1.33:1
- Debt Equity Ratio – 2:1
- TOL/TNW Ratio – 4:1
- Net Profit Ratio – On Increasing Trend
- Cash Profit – On Increasing Trend and sufficient to meet Long Term Obligations
- Debt Service Coverage Ratio – 2:1

MAJOR POINTS WHICH IMPACT ANALYSIS OF FINANCIAL STATEMENT ADVERSELY

- Difference in Projected Financials and Actual Financials
- Various Benchmark Ratio as on Balance Sheet date below accepted level
- Transfer of Available Balance in Cash Credit Account at Year End to Current Account of the Organisation or Saving Account of Partner / Proprietor
- Repayment of Sub-ordinated Unsecured Loan OR Withdrawal from Capital Account
- Change in Management / Shareholding not informed to Bank
- Loans and Advances given to Related Parties
- Loans and Advances given to non business related entities.

MAJOR POINTS WHICH IMPACT ANALYSIS OF FINANCIAL STATEMENT ADVERSELY

- Profit and Sales on decreasing Trend on Year On Year.
- Though Net Profit is Positive but Operating Profit is Negative due to classification of income in Other Income.
- Adverse Remark in Auditor' Report and Notes to Accounts.
- Debtors and Stock as per Balance Sheet is lower than Stock and Book Debt Statement submitted to Bank.
- Difference in Drawing Power as per BS and Stock Statement.
- Stock not sufficient to even cover Warehouse Receipt Loan Funding.

RATIO AS ON BALANCE SHEET DATE BELOW ACCEPTED LEVEL

- Current Ratio – The accepted level is 1.33 and the calculation is =

Current Assets excluding Advances to related parties and non business advances

 Current Liabilities including Bank Cash Credit Facilities & Short Term maturity of
 Long Term Debts

SCENARIO 1		SCENARIO 2	
Stock	110	Stock	110
Book Debt	100	Book Debt	100
Cash & Bank Balances and other advances	30	Cash & Bank Balances and other advances	30
Total	240	Total	240
Short Term Maturity of Long term Debts	0	Short Term Maturity of Long term Debts	50
Cash Credit	100	Cash Credit	100
Creditor & Other Liabilities	60	Creditor & Other Liabilities	60
Total	160	Total	210
CURRENT RATIO	1.50	CURRENT RATIO	1.14

STOCK & BOOK DEBT STATEMENT VIS-A-VIZ AUDITED FINANCIAL

SCENARIO 1		SCENARIO 2	
Stock (Margin 30%)	80	Stock against WHR	80
Book Debt (Margin 30%)	80	Book Debt	80
Cash & Bank Balances and other advances	30	Cash & Bank Balances and other advances	30
Total	190	Total	190
Short Term Maturity of TL	0	Short Term Maturity of TL	0
Cash Credit	120	Cash Credit	77
Creditor	20	Loan against WHR	63
Total	140	Total	140
CURRENT RATIO	1.36	CURRENT RATIO	1.36
DRAWING POWER	98	DRAWING POWER	98

RATIO AS ON BALANCE SHEET DATE BELOW ACCEPTED LEVEL

- Debt Equity Ratio – The accepted level is 2:1 or 2.5:1 and the calculation is =

Total Long Term Liabilities

Tangible Networth / Capital + Quasi Capital

- TOL / TNW – The accepted level is 4:1 and the calculation is =

Total Outside Liabilities including Cash Credit facilities, Creditors etc

Tangible Networth / Capital + Quasi Capital

TRANSFER OF AVAILABLE BALANCE IN CASH CREDIT ACCOUNT AT YEAR END TO CURRENT ACCOUNT OF THE ORGANISATION OR SAVING ACCOUNT OF PARTNER / PROPRIETOR

- The adverse impact of this double whammy i.e. on Current ratio and Debt Equity Ratio and TOL/TNW Ratio

IMPACT ON CURRENT RATIO

SCENARIO 1		SCENARIO 2	
Stock & Book debt and Other assets	210	Stock & Book debt and Other assets	210
Cash & Bank	20	Cash & Bank	120
Total	230	Total	330
Creditors and other Current Liabilities	60	Creditors and other Current Liabilities	60
Cash Credit	100	Cash Credit	200
Total	160	Total	260
CURRENT RATIO	1.44	CURRENT RATIO	1.27

**TRANSFER OF AVAILABLE BALANCE IN CASH CREDIT ACCOUNT AT
YEAR END TO CURRENT ACCOUNT OF THE ORGANISATION OR SAVING
ACCOUNT OF PARTNER / PROPRIETOR**

IMPACT ON DEBT EQUITY RATIO AND TOL/TNW RATIO

SCENARIO 1		SCENARIO 2	
Capital & Reserves	275	Capital & Reserves	175
Quasi Capital	75	Quasi Capital	75
NET WORTH(a)	350	NET WORTH(a)	250
Term Loan	500	Term Loan	500
Unsecured Loans	200	Unsecured Loans	200
TERM LIABILITIES (b)	700	TERM LIABILITIES (b)	700
Cash Credit	200	Cash Credit	300
Creditors and Others	50	Creditors and Others	50
CURRENT LIABILITIES (c)	250	CURRENT LIABILITIES (c)	350
DER (b/a)	2.00	DER (b/a)	2.80
TOL/TNW ((b+c)/a)	2.71	TOL/TNW ((b+c)/a)	4.20

COMPARISON OF PROJECTED FINANCIALS AND AUDITED FINANCIAL

- Sanction Letter of the Bank should be read properly with major financial parameters marked and informed to Promoter.
- The Projections should always be on conservative side.
- Difference of 5% on lower side is accepted.
- Any major difference on lower side lowers reliability of future projection.
- Changes in Management / Shareholding etc should be after informing the Bank.
- The non compliance has negative impact on rating.

FOLLOW UP AND REMEDIAL ACTION

- The Projections should always be on conservative side.
- The client should be made aware of the Financial Projection submitted to Bank.
- The preparation of Balance Sheet should start from February month itself by analyzing sales/profit/Net working Capital etc on regular basis and if required take remedial action.
- Difference of 5% on lower side is accepted.
- Any major difference on lower side lowers reliability of future projection
- Verify portals such as Probe42.in or similar portal for information about the Company
- The non achievement of Projection and decrease in financial parameters has negative impact on rating.

ANY QUESTION PLEASE

THANK YOU

