

# Assisting you in this unprecedented period

## M&A and Transactions Advisory Cash Flows, Debt and Credit Analysis

### The Current Landscape

The COVID-19 pandemic continues to impact global markets and businesses, and the repercussions are here to stay for the long-term. Lenders are faced with a number of critical difficulties when considering loan restructurings. Similarly, on the other side of the spectrum, businesses are confronted with lack of liquidity creating issues in their repayment capabilities.

With the current atmosphere, lenders and borrowers need to stay on top of the rapidly changing circumstances, and are advised to leverage expert support.

### Our Support

Here we have conducted a high-level analysis on the key challenges of both the lenders and borrowers, along with a 5-step guide to assess potential cash flow and credit risk that exist in the current crisis.

In addition, our M&A and Transactions Advisory team, from a debt advisory perspective, have created a cash flow and credit analysis tool by focusing on key pain points that are of critical importance to any business' loan repayment ability and viability - both of which are critically important to lenders as well as borrowers.

## Financial & operational obstacles due to current economic climate

### Banks / Lenders

- Increased risk of non-performing-loans ("NPL"), across various sectors, means that there needs to be closer monitoring by the credit risk function
- Negotiations to restructure loans, potentially with lower interest rates, moratorium or longer repayment periods
- Issues to consider relating to syndicated loan vs bilateral loan arrangements

### Borrowers

- Cash flow crunch in the business due to slowdown in operations, delayed accounts receivables from customers and ongoing obligations
- Challenges in repaying loan principal and interest; and scenario planning in this uncertain environment.
- Difficult to raise new funds due to potential financial viability and liquidity issues

# 5 steps to assess potential cash flow/credit risk

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## 1 Risk assessment & loan profile analysis

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- Reviewing business plan of the business, understanding cash flow and headroom flexibility
- Stress-testing forecasted profit and loss, balance sheet and cash flow
- Reviewing monthly consistency in repayment of loan and quantum of unpaid overdue installments
- Reviewing financial and non-financial covenants, and assessing potential future breaches

## 3 Liquidity, leverage analysis & market intelligence

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- Reviewing the liquidity of the business, ratio assessment on cash flow, current assets and liabilities
- Reviewing current gearing ratio of the business, conducting assessment on debt service coverage and principal repayment
- Presenting industry intelligence for general financial performance norm, including key ratios, growth rate, market size, etc.

## 5 Conclusion & recommendation on available options

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- Conducting short-term (6 – 12 months) assessment on financial viability of the business
- Identifying key stakeholders and their exposures, economic interests, and wider objectives
- Presenting and recommending a course of action which can maximise/optimize the value of the business

## 2 Historical reporting measures & pipeline analysis

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- Analysing operating performance, balance sheet and working capital fluctuations of the business, and conducting assessment on operational cash flow conversion
- Reviewing orderbook/pipeline, conducting assessment on projected cash flow run-rate performance
- Conducting sensitivity analysis on projected cash flow for known/unforeseen material variations

## 4 Off-balance-sheet exposure

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- Reviewing off-balance-sheet facilities, conducting assessment on key terms/margins maintenance required of the business
- Conducting assessment of limits and key terms on hedging instruments
- Conducting sensitivity analysis to assess potential breach or trigger point for margin call or liquidation on instruments

### Stakeholders benefiting from this assessment



**Banks / Lenders**



**Borrowers**

# A bespoke deliverable for you

The cash flow and credit analysis by our M&A and Transactions Advisory team focuses on key pain points that are of critical importance to businesses' loan repayment ability and financial viability - both of which are critically important to lenders as well as borrowers.

## Key elements of cash flow & credit analysis

Grant Thornton's cash flow and credit analysis will help to:

- Understand the business plan and cash flow of the borrowers to help you **stay informed of potential default risk**.
- Identify borrowers' loan profile to help stay informed with potential **future covenants breach**.
- **"Get the story"** behind the borrowers' financial numbers by understanding the operational cash flow conversion, pipeline, and cash flow run-rate.
- Understand how business cash flow is affected by known/unforeseen circumstances, helping to make **informed decisions going forward**.
- Analyse the balance sheet position of the business to help understand the **strength of the borrowers' asset base**.
- Understand the industry benchmark and help make **informed decisions in negotiations**.
- **Avoid 'surprises'** by understanding off-balance sheet quantum and limits to help stay informed with potential credit risk.
- Understand short-term **viability** of the business (6 – 12 months).
- Support in evaluating **desirable options** to gain real economic value or reduce credit/default risk.

## Deliverables

Our flexible approach results in customised deliverables based on your needs. We will meet with you to discuss the outcome of our work and will prepare a comprehensive report to document these findings. In general, our report will adopt a **'traffic light'** approach categorising risks from high to low.

The collage displays various financial analysis deliverables, including:

- Summary of financial stats:** A table comparing 2019, 2020, and 2021 performance across categories like Revenue, Operating Expenses, and EBITDA.
- Summary of key findings (cont'd):** A report section with a traffic light risk assessment (High, Medium, Low) and detailed observations.
- Historical seasonality:** A bar chart showing monthly revenue and expenses, highlighting higher summer billings and collections in Q4.
- Strength of customer replacement programs:** A chart showing customer counts over time, with observations on program effectiveness.
- Historical seasonality (line chart):** A line chart showing revenue and expenses over time, with observations on seasonal trends.
- Strength of customer replacement programs (line chart):** A line chart showing customer counts over time, with observations on program effectiveness.

Reach out:



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