Advanced Credit Analysis & Cash Flow Forecasting

The incidence of business failure in Europe is increasing. Statistics show that more than 300 companies go out of business every week. The high rate of bankruptcy is attributed to the combined effect of fiercer competition in the marketplace and heavier debt burdens carried by companies. Matters grow even worse when these two factors are accompanied by an economic downturn. A company's chances of survival could be predicted once with the use of financial-statement analysis. Nevertheless, financial-statement analysis basically looks to the past, so that the probability of firms' vulnerability in the future can hardly be predicted with any accuracy. This seminar attempts to examine the most commonly referred methods in credit risk analysis in order to help the participant reach sound, reliable judgments of company creditworthiness.

What is credit analysis

Credit analysis is the analysis used to determine the creditworthiness of a corporate client. It examines its capability to repay the amounts owing on schedule or at all. Establishing the creditworthiness of borrowers is one of the oldest established financial activities known. Through history, the act of lending funds has been accompanied by an examination of the ability of the borrower to repay the funds. Credit Analysis is still more of an art than a science in 2008.

Learning Highlights

This course concentrates on the practical aspects of corporate credit analysis and provides understanding of the industry and company factors that give rise to credit risk and how such risk impact the creditworthiness of companies. It will help participants build actual scoring models based on scorecards and thus assess the probability of default of their clients. Finally, it will help understand the nature of financial statements and thus forecast the future cash generation of a company, which is, the holy grail of credit analysis.

Who should attend?

1. Credit analysts, first and foremost;
2. Financial & Business analysts
3. Managers involved in approving the advancements of credit to companies

Structure

- This intensive two day workshop requires hands-on participation
- The course is designed around theory and practice where participants will use their own laptop to develop real life models and simulation exercises.

DAY ONE

The basic parameters of credit risk analysis
Session 1: Introduction
- The pyramid of corporate credit analysis
- Credit Risk Assessment Process

Session 2: The Qualitative & Quantitative Analysis
- Assessing market risk
- Assessing management risk
- Understanding Financial Statements
- Accounting essentials
- Statement structure and composition
- The 6 C's of credit (Character, Capital, Capacity, Conditions, Collateral & Contingency)
- Credit models (Moody's KMV, S&P Credit Risk Tracker®)

Understanding Corporate Credit
Session 3: Credit & its Affects on a Company
- Cost of financing corporate clients
- Working capital needs
- Debt capacity
- How fast can a company afford to grow

DAY TWO

Credit analysis tools
Session 4: Assessing Operating/Financial Position
- Key financial ratios used in the ratings process
- Role of ratio analysis
- Structured approach to ratio analysis

Session 5: Other Tools
- Multivariate discriminant analysis models – Altman Z Score
- Credit scorecards
- Assessing Probability of Default
- Using credit insurance
- Using credit Reports from rating agencies

Working capital and Cash Flow Analysis
Session 6: Working capital Analysis
- Understanding the dynamics of Working Capital
- Sensitivity analysis of WC parameters
- Scenario analysis of WC parameters

- Monte Carlo simulation of WC parameters

Session 7: Cash Flow Analysis
- Forecasting the Income statement
- Forecasting the Balance Sheet
- Converting income statement to cash flow statement
- Key cash flow concepts explained

Session 8: Putting it all together - Case Study
- The culmination of the course is a comprehensive case study based upon a major international company followed by a full financial statement modelling and forecasting, allowing delegates to put to the test the knowledge and techniques accumulated during the earlier part of the course.