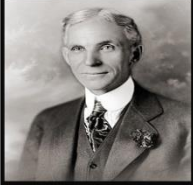




BUSINESS NEWS



It is well enough that people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning.

(Henry Ford)

ixquotes.com

The secret of business is to know something that nobody else knows.

Aristotle Onassis

For more information visit www.skbassociate.com

IS YOUR BUSINESS BANKABLE???



By: S. Khugan

S. Khugan is the Group Managing Director of SKB group of companies. His primary expertise lies in corporate and financial consultancy. He has over 18 years of experience in the field of Mergers Acquisitions, Investments and Investment relations and Corporate Due Diligence. He lives in Kuala Lumpur with his wife, son and a recently rescued kitten.

In Malaysia there is a huge distinction between running a successful business and making the same business **"Bankable"**. The mistake that many entrepreneurs make is **to judge the bankability of their business based on their benchmarks on success**



Financial Institutions do not see your business the way you do!

MAKE THE DIFFERENCE BY UNDERSTANDING YOUR BUSINESS!!!



GETTING STARTED...

Let us assume that an entrepreneur has set up a business in 2010 with capital of RM 100,000 and within the first fiscal year he has made a turnover of RM 750,000 with a profit of RM 280,000 and in 2012 the said business revenue has increased to RM 1 Million with a profit margin of RM 350,000 and in 2013 the turnover has increased to RM 1.5 Million with a margin of RM 540,000.

Now, the company is looking at orders and estimated revenue of RM to 2.3 Million for 2014. of RM 280,000 and in 2012 the said business revenue has increased to RM 1 Million with a profit margin of RM 350,000 and in 2013 the turnover has increased to RM 1.5 Million with a margin of RM 540,000. Now, the company is looking at orders and estimated revenue of RM to 2.3 Million for 2014. Now based on the company performance and growth rate how much do you think that the entrepreneur would be able to finance his operations in 2014? be able to finance his operations in 2014?

Would you assume, seeing that there are confirmed orders for 2014 in the ratio of RM 2-2.3 Million, a sum of RM 1 Million should not be a problem since the company has the track records to prove it?

Here is the kicker!

Financial Institutions do not see the business the way you do! The entrepreneur is right in assuming the said figure as in the business world it is justified. However, in banking world it would be seen as an "Exposure Risk". WHY? The reason being that the company is just 3 years old and that the orders are based on projections and can't be quantified at the time of application.



So how much can the said entrepreneur expect?

We are assuming that all his credit credentials are perfect or at least close to it. These factors would be explained later. Based on the business turnover the conservative amount that the entrepreneur would most likely expect is **RM 300, 000.00- 450,000.00**. The figure is derived by taking in the last Audited Revenue figure of RM1.5 Million and estimated profit margin of 36%. Based on that, the Financial Institution would look into a conservative Loan amount of between 20-30% of the total recorded revenue of the company based on their last financial statement. And of course the other **CCS(client scoring systems)**.

Such As:



COMPANY GEARING

The Financial Institution would look at the current loan ratio of the company in terms of other borrowings such as Business loans like term loans, Overdrafts, Multi-trade facilities, Hire purchase for company vehicles etc. The payment records have to be prompt as the Applicants payment discipline is determined by these records

DIRECTORS' GEARING

The Financial Institution would also look at the current loan ratio of the Directors of the company in terms of their individual or personal borrowings such as term loans, Overdrafts, Credit cards, Hire purchase for personal vehicles, Housing and other property loans etc. The payment records have to be prompt as the Applicants payment discipline is determined by these records.

CCRIS

The Financial Institution would look at the current loans already approved as well as other pending applications. This helps them determine the mindset of the borrower. If the borrower applies to 1-2 Financial Institutions then it shows that the borrower is focused and has a repayment plan in mind.

However when the Borrower applies to 4 Financial Institution or more, it shows that the borrower is **"Shopping around"** and is not certain what exactly to do with the borrowings and risks not paying the loan back, therefore becomes a **credit risk** to any bank.

DISHONORED

CHEQUES

Another aspect of credit scrutiny that most entrepreneurs are not aware of is the system of dishonored Cheques. If you or any other director of the company have dishonored cheques on a personal capacity that is a bad mark on your application. Furthermore, if there has been dishonored cheques from the company account then it really affects the application and can be rejected if there are no justifiable reasons. This shows the Borrower's behavioral patterns in a very negative light.

"A BANK IS A PLACE THAT WILL LEND YOU MONEY IF YOU CAN PROVE THAT YOU DON'T NEED IT."

~bob hope



AUDITORS

This is something that is extremely important. To Businessmen, running the business is the top priority which leaves things like accounts and Audits in the care of Company Secretaries who in turn passes it on to their known Auditors and so forth. However we have encountered major problems in the last 5-6 years where the Financial Institutions have blacklisted several Audit Firms. If your accounts have been unfortunately audited by these firms then your applications would be rejected as it is assumed that the figures have been fraudulent. So please be aware on who are your accountants and auditors.

PREVIOUS LEGAL PROBLEMS

This is also believe is a major factor which most Financial Institutions stress upon. If the company is under any form of winding up petition or any legal cases taken against the company, it would be shown on the system and the Financial Institution would reject the said loan. For directors, if they have been taken in for bankruptcy or any other legal proceedings, which too would lead to the rejection of the application. An important aspect that most people are not aware of is that even if the Bankruptcy action or any other legal matters have been settled, all financial institutions would have to wait 1 year (12 calendar months) from the date of redemption before they can proceed with any other loan applications



These are some of the reasons as to why your loan applications may have been rejected. There are of course other factors as well but those are deemed confidential and are for bank internal use only. Thus I cannot disclose them at this point. There are also the factors of types of loans that are required for the business. Most people are only familiar with facilities such as Term Loans and Overdrafts, while being oblivious to many other types of facilities that can be useful to their company. My advice is to identify **WHAT EXACTLY ARE YOUR BUSINESS NEEDS?** Once that is clear, you can approach your bankers to see what can be done.

WHY DO FINANCIAL INSTITUTIONS HAVE SUCH STRINGENT MEASURES?

In the last 8 years the numbers of **NPL (Non-Performing Loan)** ratios have increased drastically. These events have forced Financial Institutions to tighten their parameters of lending as they are looking at serious and secure borrowers only.

With desperate economic times there increases the number of fraudulent applications that are meant to cheat the Financial Institutions. Some of them are so precise that it is hard to tell if they are fraudulent, even to the trained eyes of experienced bankers. In spite of being in the line for so long, even we sometimes have a hard time recognizing them, but we eventually do. (Please look out for my future posts on case studies explaining this issue).

Therefore if Businesses are legitimate and genuine there are always ways for them to obtain financing. However, some knowledge on the matter of finance is required. After all, how do you expand your business if you are unaware of the basic financial fundamentals??? By understanding these fundamentals, you make yourself and your company **BANKABLE!!!**

MORAL OF THE STORY: Nobody is as unintelligent as you perceive they are.... All Financial Institutions are so busy vetting thru the fraudulent cases among the genuine ones that the time frame of processing becomes exhaustive and long. That makes the issue of how you present your papers very very important. How you present your company and its financial needs is the key of how the Financial Institutions will view your application against the others.

So please just don't apply for loans without knowing what you need. Remember a **LOAN IS ALWAYS A LIABILITY!!!** It is not your money to have fun with. It is the basis of improving your business to generate a higher income for you as a Director/ Owner to have fun with...

So analyze your business, put your needs and goals under a microscope and determine how you are going to make that happen! That is what all Financial Institutions want to see before they evaluate your application / proposal seriously.

Please look out for my other posts where I would be giving actual case studies of how the above had affected some of our clients as well.

Till then please have a Profitable Week Ahead and All the Best Always!!!

S. KHUGAN

GROUP MANAGING DIRECTOR

SKB ASSOCIATES SDN BHD.