Stones Importers Limited

Funding application and financial forecasts 20XX/20XY

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Information

Directors:	Mr C Stones Mrs D Stones
Main office:	Street Anytown Postcode
Storage facility:	c/o SSSS Shipping Wharf Yard UK
Accountants:	Accountants details Street Anytown Postcode

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This commentary was requested by the finance company as part of the application. A meeting was initially held with them involving the director and his accountant. The meeting involved general discussions relating to the background of the company, its new products and the reason behind the need for funding.

Type of finance required

The company is seeking an overdraft facility of £200,000 to cover a maximum potential cash flow shortfall during the company's busy season which is spring to summer. It is anticipated that the length of time the overdraft facility is needed will be no greater than three months.

This is the company's first application for an overdraft as they not have any other financial products or loans.

History and overview of the business

Stones Importers Limited was incorporated in January 2009. The company bought the assets and goodwill off the directors who ran the business in their own names up until this point.

The company's main activity is the import and wholesale of stone products mainly for the agricultural and landscaping industry. The company does not sell directly to the public.

The two directors, Mr and Mrs Stones have collectively over 50 years experience in the industry and have an excellent reputation with both customers and suppliers. Between them they own all of the issued share capital in the company.

The company's office and administration centre is situated in Anytown and the storage yard (which also incorporates a product display section) is in the UK.

The company currently employs two salesmen, two administration people, a bookkeeper and the two directors who oversee the whole operation.

The company's long term aim is to grow nationwide and become the preferred choice for all of the larger retail stone suppliers. They are already actively looking for larger storage facilities where bulk deliveries can be stored and port storage fees avoided.

In due course the directors are confident that their shares in the company can be sold to one of the very large Indian quarry companies who want to establish a foothold in the UK and Europe. The company is using a business growth specialist who is advising on growing the company with this aim in mind.

To date the company has been very profitable and last year was the most successful yet. Financial statements are attached with this application.

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Details of the product

Typical products sold are decorative patio slabs, block paving and ornamental garden features. All products are imported from India in specific containers which then go directly to builder's merchants and garden centres. The use of containers helps minimise the administrative costs as each load does not need to be split or normally touched in any way before delivery to the customer. Therefore warehouse staff costs and associated storage overheads etc are very low.

Depending on which type of stone is needed – type, colour, thickness etc, a different quarry needs to be used which are generally owned by different company's who have different credit and supply terms.

Some stock is held for display purposes or as samples but the company's ethos is to supply large quantities of materials directly to their customers from the port. This is a unique selling feature for this company as they have few competitors in the UK who deal with large direct deliveries

Reason for finance application

The company is currently expanding and has booked product orders in advance which are three times the levels experienced at this time last year. The directors have prepared financial forecasts which show very healthy profits for the next 12 months and beyond. However the increased level of orders mean that the current working capital may not be sufficient. The funding issue comes from the difference between the payment terms to the Indian quarries and the receipt of funds from the customer:

- Order of stone from India

  Once the order is made the stone is cut and assembled to order and this takes around two to four weeks. At this stage no payment is generally requested.

- Bill of lading

  Once the order is loaded the normal bill of lading is issued along with an invoice. The invoice is then payable but due to the good historical relationship with the supplier the company is given some credit. Unfortunately this will vary depending on which quarry is used. The normal range would be between 90 days credit from date of order down to 75 days. There is also a variable in that the order may be on the ship for up to six weeks depending on its route and the amount of ports called at. The shipment must always be paid for by the time it is unloaded.

- Sales receipt from customer

  Once the order has landed at the port there is a small delay in customs processing and then each container is delivered directly to the customer. Due to the economic conditions customers tend to exceed the stated credit terms (30 days from delivery) and this tends to vary between 45 days credit up to 60 days.

Therefore there is a need for funding to bridge the ongoing gap between the initial outlay and the receipt from the customer. The credit terms difficulties which are experienced with customers are an industry norm. This is because once the sales invoice has been issued from Stone Importers Ltd, the customer will normally not sell the complete container for possibly a few weeks as most of the product is used for bespoke garden displays which take time to install.
The amount of variables involved in terms of credit received and given also makes the funds flow difficult to predict.

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Information attached

Following discussions with the directors we have produced the forecasts in two versions – a 'best' case scenario and a 'worst' case scenario. These consist of the forecast Profit & Loss account, Cash Flow and Balance Sheet for that period.

- 'Best' case scenario 90 days order credit and 45 days debtor credit
  - Profit and Loss Forecast
  - Balance Sheet Forecast
  - Cash Flow Forecast

- 'Worst' case scenario 75 days order credit and 60 days debtor credit
  - Profit and Loss Forecast
  - Balance Sheet Forecast
  - Cash Flow Forecast

The reason for the two versions is that the Cash Flow is the critical issue and due to the reasons set out above, it is very hard to average out the levels of credit both given and received. Therefore the best case scenario assumes 90 days supplier credit (from order) and 45 days debtor credit. This version shows that with the increased turnover, the company will not need outside finance.

However the Directors reviewed these figures and were concerned that, because of the economic conditions and the volatility of some of the suppliers, the assumptions might change quite quickly. Therefore we produced the worst case scenario which assumes 75 days supplier credit (from order) and 60 days debtor credit. This version shows the clear need for finance during the summer months.

The Directors are of the opinion that the actual figures will be better than the worst case scenario but there will still be a need for finance. They have looked at the factoring/invoice discounting option but they would prefer an overdraft facility to cover the temporary shortfall due to the length of time the overdraft facility is required, three months. They would thus be looking to benefit from a facility of a maximum of £ 200,000.

Also attached (not attached and only for illustrative purposes)

- Financial statements for the years ended 31 March 2011 and 31 March 2010

- Financial forecasts for the year ended 31 March 2012