

## STOCK FINANCE KEYNOTES

### USAGE

- To fund the purchase of goods that are to be held in stock prior to their sale and/or delivery to one or more end-buyers
- Finance is made available at the point of supplier settlement until either the sales invoice is raised on delivery of the goods to the end-buyer (when invoice or receivables finance is used), or upon receipt of sales proceeds

### FINANCING STRUCTURES

#### Unstructured

- Finance is made available on an overdraft basis
- Funds can be drawn without the need to fulfil any preconditions
- This type of facility is repayable on demand
- The bank account upon which an overdraft limit is authorised will typically fluctuate between a credit and a debit balance as monies flow out of and into the account
- The overdraft limit is the maximum debit balance allowed on the bank account
- Because the financier has no control or visibility on what the monies are used for and no set date for repayment, the permitted overdraft limit is assessed on the ability of the borrower to repay the financier on demand, and the type and value of security available for use as a secondary source of repayment
- Overdraft limits are typically reviewed annually

#### Fully structured

- Drawdown is typically by way of loan
- Funds are drawn and used for approved transactions, or those meeting pre-agreed criteria
- The financier exercises control over drawdown of the loan against presentation of stipulated documentation evidencing fulfilment of the pre-specified event or condition
- The date for repayment of the loan is set to align with the expected receipt of related sales proceeds, or issuance of the sales invoice (when used for receivables finance prepayment)
- The trade receivable proceeds are captured by the financier and ring-fenced away from the borrower
- This type of self-liquidating facility means that the financier's primary source of repayment is the financed transaction and not the borrower
- The transactional source of repayment is often considered of better credit quality than that of the borrower
- The key dependencies to transactional repayment are the credit quality of the end-buyer, the economic and political situation of their country of domicile, and the capability of the borrower and their supply chain to perform under the commercial agreement

#### Partially structured

- Whilst the financier may exercise control over the drawdown of the loan, and the loan has a set date for repayment aligned to the expected receipt of identifiable transactional proceeds, the receivable is not captured or controlled by the financier
- Where the sales proceeds are credited to the freely operable bank account of the borrower, repayment relies upon them having sufficient funds in their account on maturity of the trade loan. This partial facility structure cannot be considered self-liquidating. There is a risk that the identifiable trade receivable proceeds generated by the financed transaction are used by the borrower for other purposes and not therefore available to cover repayment of the loan. Whilst this risk can be reduced by close monitoring of the borrower's bank account and debiting the account in repayment of the loan as soon as the trade receivable proceeds are received, this is time consuming and may not be operationally feasible

**Fig. 13.1** Stock finance: keynotes