Financial Handbook for SMEs
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Today, Singapore is home to many dynamic and vibrant small and medium enterprises (SMEs). SMEs account for over half of the jobs in Singapore, and contribute more than 40% of our GDP.

With the economy on the upturn, many of our SMEs are riding on the wave of economic expansion and growing their business operations. Access to capital will allow them to further exploit strategic opportunities.

To enhance their chances of success in raising the necessary capital, SMEs need to strive to upgrade their financial management capabilities and improve their creditworthiness in the eyes of potential lenders and financiers.

Sound financial management will not only make an SME more attractive to lenders and investors, it will also free up cash resources within the business and reduce the reliance on external financing.

I hope this handbook will serve as a useful guide for SMEs to strengthen their financial capabilities and boost their competitiveness in today’s global business environment.

MR LEE YI SHYAN
Minister of State, Trade and Industry
Minister in-charge of Entrepreneurship
Chairman of Action Community for Entrepreneurship
MESSAGE FROM THE ASSOCIATION OF BANKS IN SINGAPORE (ABS)

This Financial Handbook for Small and Medium Enterprises (SMEs) is a collaborative effort of the Association of Banks in Singapore, SPRING and the financial community. This initiative recognises and affirms the importance of SMEs, and complements our national drive to promote a vibrant and conducive environment for SMEs, an integral element of Singapore’s economy.

This Handbook will help SMEs appreciate the dynamics of effective financial management as the key to responding nimbly to the intricacies of both internal and external environments in the business world. At the same time, it should assist them to understand what banks look for when considering granting credit facilities to SMEs.

The financial community supports this Handbook as it recognises the significance of the SME segment. Many financial institutions offer products and services to meet the needs of SMEs, from start-ups to well-established companies, and also work closely with the government agencies to make available government assistance schemes to the SME community.

ABS will continue to work closely with the financial and business community to improve the business environment for the SME community via feedback channels and other forms of support. We are confident that such efforts will nurture the success of the SME community in the long term, and reinforce the entrepreneurial culture in Singapore.

MRS ONG-ANG AI BOON
Director, The Association of Banks in Singapore

MESSAGE FROM CHIO LIM STONE FOREST

Access to capital is often cited by our SMEs as a key factor inhibiting their growth. This handbook aims to give SMEs some tips to facilitate their journey in the search for financing. It is not to be another book on financial management, given the vast resources in the market place on this subject. Using a case-study approach, with references at the ‘ground level’ that SMEs can identify with, we crystallized more than 20 years of our experience in helping SMEs raise funds into easy-to-read snippets on what they need to know about getting financing and what financial institutions look for.

The financing landscape has developed much over the years: there is today a wide range of financing options for SMEs, as well as dedicated teams at financial institutions to serve their needs. While these developments are positive, our SMEs continue to face tough competition from globalization and the digital economy. Today’s business model can be made irrelevant, product life cycles are shorter, profit margins are declining, and it is harder to keep talents.

To succeed, SMEs need more than just access to capital. We need to have the mental agility to adapt, upgrade and acquire new management and financial know-how, instil strong financial discipline to grow within our means and maximize our available resources. In our consulting work, we help businesses focus on cash flow and profit improvement as the basic foundation in planning for growth. We are happy to share with you in this handbook some of the methodologies we have been using. We hope you will find them useful in planning for the growth of your business.

MR CHIO KIAN HUAT
Chief Executive Officer,
Chio Lim Stone Forest
Types of Financing

Introduction

Small and medium enterprises (SMEs) are an important part of Singapore’s economy. They comprise 99% of all the establishments and employ more than half of the workforce.

The SME criteria for schemes administered by SPRING Singapore as follows:-

- At least 30% local equity;
- Fixed assets not exceeding S$15 million; and
- Employment size not exceeding 200 for services companies

In recent years, financial institutions in Singapore are placing greater emphasis on meeting the financing needs of SMEs.

Each financial institution has its own definition of SMEs and its own dedicated relationship managers, innovative treasury and lending products, and personalised services to cater to the needs of this segment. These services and product information are available on the websites of the financial institutions.

At Citigroup, we offer SMEs more than just financial support. We provide a full suite of trade solutions. From simple issuance of Letters of Credit to complex financing structures, we provide a one-stop convenience to support transactions through its entire life cycle. Not to mention, supporting you with the widest range of currencies for diverse payments across the globe. With best-in-class hedging solutions and innovative yield-enhancing instruments, we also protect you against unfavourable market fluctuations. Bank with us and take advantage of our global reach in more than 100 countries. With innovative technology and market specialisation, we can help turn your vision into reality.

Citigroup Commercial Banking Group. Empowering SMEs.

For customised end-to-end financial solutions, call 1800-328 5500.
Your Financing Options
Generally, most entrepreneurs rely on a combination of debt and equity financing to grow their business. Debt financing refers to interest-bearing loans that have to be repaid over a period of time. Equity financing refers to share capital from investors who are looking at capital gains and possibly dividend returns. There are also hybrid products in the form of convertible loans that allow the holder to convert to equity later.

The following tables provide a summary of the financing sources and options available to a business at different growth phases.

Stages of a Company’s Development

<table>
<thead>
<tr>
<th>Start-up</th>
<th>Growth</th>
<th>Internationalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is completing or has completed product development and initial marketing.</td>
<td>Is a profitable business with stable customer base.</td>
<td>Has track record of profitability.</td>
</tr>
<tr>
<td>Has some revenue and is building customer base.</td>
<td>Requires more capital to support growing sales. The funds are typically used to increase production capacity, strengthen branding and corporatise critical business processes.</td>
<td>Is successful in the local market.</td>
</tr>
<tr>
<td>Not yet profitable. Requires funding to sustain development.</td>
<td>Exploring overseas opportunities through joint ventures, mergers and acquisitions, and strategic alliances with overseas partners.</td>
<td>Exploring overseas opportunities through joint ventures, mergers and acquisitions, and strategic alliances with overseas partners.</td>
</tr>
</tbody>
</table>

Sources of Finance - Commercial Banks and Finance Companies

<table>
<thead>
<tr>
<th>Start-up</th>
<th>Growth</th>
<th>Internationalisation</th>
</tr>
</thead>
</table>
| Has limited access to commercial banks. Finance companies are unlikely to provide funding as they are required by law to provide loans on a secured basis. | Financial institutions offer many products to help growing companies in these areas:  
  - Purchases: Letters of credit and trust receipts  
  - Sales: Bills discounting and factoring  
  - Fixed assets: Loans  
  The type of facility, quantum and condition of loans vary with each SME’s balance sheet position and credit risk rating. | Financial institutions offer many avenues to help established companies internationalise their operations. For example,  
  - Project financing facilities: These are term loans structured over the tenure of the project.  
  - Syndicated loans: These are structured loans provided by participating financial institutions to co-share the risk.  
  Restrictions on finance companies’ activities may prevent them from providing structured products and syndicated loans. |
| For companies with confirmed orders, it is possible for financial institutions to offer letters of credit and trust receipt facilities to enable them to purchase raw materials to complete the sale. | Financial institutions offer many avenues to help growing companies in these areas:  
  - Purchases: Letters of credit and trust receipts  
  - Sales: Bills discounting and factoring  
  - Fixed assets: Loans  
  The type of facility, quantum and condition of loans vary with each SME’s balance sheet position and credit risk rating. | Financial institutions offer many avenues to help established companies internationalise their operations. For example,  
  - Project financing facilities: These are term loans structured over the tenure of the project.  
  - Syndicated loans: These are structured loans provided by participating financial institutions to co-share the risk.  
  Restrictions on finance companies’ activities may prevent them from providing structured products and syndicated loans. |
### Sources of Finance - Corporate and Angel Investors

<table>
<thead>
<tr>
<th>Start-up</th>
<th>Growth</th>
<th>Internationalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mostly angel investors. These are typically successful businessmen with an appetite for start-up companies with higher risk.</td>
<td>Corporate investors keen to provide new monies usually demand an equity stake in the company.</td>
<td>Companies can enter joint ventures with listed corporate investors to co-share the risks and rewards of overseas ventures.</td>
</tr>
</tbody>
</table>

### Sources of Finance - Stock Exchange and Trading Platforms

<table>
<thead>
<tr>
<th>Start-up</th>
<th>Growth</th>
<th>Internationalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over-the-Counter (OTC) Capital</td>
<td>Initial Public Offering (IPO) Companies can apply for listing in Singapore or elsewhere as long as they satisfy the listing requirements.</td>
<td>Initial Public Offering (IPO) Unlisted companies can apply for listing on the stock exchanges in Singapore or elsewhere.</td>
</tr>
<tr>
<td>Alternative Investment Market (AIM)</td>
<td>For SESDAQ listing in Singapore, although companies do not need to have a track record of profitability, they have to achieve a minimum profit after tax of $52 million to get an underwriter to sponsor the listing.</td>
<td>Bonds and Commercial Papers More established companies can issue bonds and commercial papers to raise monies.</td>
</tr>
<tr>
<td></td>
<td>Share Placement and Rights Issue Companies can raise funds either through share placement exercises to new shareholders or rights issue exercises to existing shareholders.</td>
<td></td>
</tr>
</tbody>
</table>

### Government Financing Schemes

The Government plays a key role in supporting local businesses and their financing requirements. This table summarises the schemes for SMEs:

<table>
<thead>
<tr>
<th>Financing Schemes</th>
<th>Start-Up</th>
<th>Growth</th>
<th>Internationalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>• Start-up Enterprise Development Scheme (SEEDS) • Business Angels Scheme (BAS)</td>
<td>• Growth Financing Programme (GFP)</td>
<td>• Growth Financing Programme (GFP) • Enterprise Fund</td>
</tr>
<tr>
<td>Debt</td>
<td>• Micro Loan Programme</td>
<td>• Local Enterprise Finance Scheme (LEFS) • Loan Insurance Scheme (LIS)</td>
<td>• Internationalisation Finance Scheme • Loan Insurance Scheme (LIS) • Trade Credit Insurance</td>
</tr>
</tbody>
</table>

For more details, please visit EnterpriseOne at [www.business.gov.sg](http://www.business.gov.sg).

Choosing the right financing option is critical to a business. Entrepreneurs need to plan carefully, weigh the pros and cons of the various options, and choose those that are most suited to their stage of growth.

As funds provided by financial institutions are integral to the overall funding structure of an SME, it is important to understand the language of financial institutions. Read on to learn about the common evaluation criteria that most financial institutions use for approving loans.
Understanding the Language of Financial Institutions

Different Viewpoints of the Entrepreneur and Financial Institution

To the entrepreneur, risk-taking and capitalising on opportunities to generate more profits are the name of the game. The financial institution’s core business is lending to sustainable businesses that are able to service the interest and repayment of capital. As such, effective risk management and monitoring are critical. In making the lending decision, financial institutions evaluate the sustainability of the business model, the integrity and track records of the borrowers and also consider the value of the assets offered by the borrowers to secure the loans.

These two different perspectives result in differences in interpreting the financial performance of a business. The table below gives a sample of the different viewpoints of the entrepreneur and the financial institution in interpreting and analysing the financial performance of a company that has achieved high revenue growth and return on equity.

<table>
<thead>
<tr>
<th>Financial Performance</th>
<th>Entrepreneur’s Perspective</th>
<th>Financial Institution’s Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue doubled from $30 million to $60 million</td>
<td>The revenue growth came from new sales to emerging countries. I made a high profit margin of 20% for sales to emerging markets, compared to 8% for sales to traditional, established markets.</td>
<td>Sales to emerging markets carry a higher default risk as they are made on open account basis with a long credit term of 90 days. The laws in certain emerging countries are weak in protecting creditors’ interests, making it harder to enforce collection.</td>
</tr>
<tr>
<td>Average stock holding period increased from 60 days to 120 days</td>
<td>Bulk purchases reduce procurement cost and improve profits by 5%. The longer stock holding period is not a concern as these stocks can be sold within six months.</td>
<td>These stocks are financed by short-term bank borrowings that have to be repaid within 120 days from the date of purchase. If you are unable to sell and collect from customers within 120 days, you will default on repaying these short-term facilities.</td>
</tr>
</tbody>
</table>
Understanding the Language of Financial Institutions

The example above clearly shows that financial institutions are very focused on identifying the risk of non-payment of loans. Financial institutions take the following into account:

<table>
<thead>
<tr>
<th>Quality of the revenue and debtors</th>
<th>Entrepreneur’s Perspective</th>
<th>Financial Institution’s Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Revenue earned and supported by buyer’s letter of credit carries lower risk than revenue made on open account basis.</td>
<td>I have done better than many listed companies and increased shareholder value. The bank should lend me more funds to generate higher return on equity.</td>
<td>Although your return on equity is 20% per annum, your total liabilities are 4 times more than the shareholders fund. This, coupled with the collection risk from emerging markets and the longer stock holding period, increases your risk rating. The bank will not be able to lend you more monies. Instead we are looking at reducing the current facilities.</td>
</tr>
<tr>
<td>• Revenue on open account basis and mitigated by credit insurance policies carries lower risk than those not covered by credit insurance.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Overseas debtors in developing and emerging countries carry higher risk than those from developed countries.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Asset conversion cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td>• This measures the number of days that the company takes to convert purchases into sales and collections. The longer the cycle, the higher the default risk.</td>
</tr>
<tr>
<td>• The stock turnover, debtors’ turnover rate and creditors’ turnover rate are commonly used indicators to understand and measure the asset conversion cycle.</td>
</tr>
</tbody>
</table>

If the financial institution assesses that the risk of non-payment is high, it will typically ask for security (such as properties, cash deposits). Without sufficient security value to mitigate the risk of default, it is unlikely that the financial institution will increase the exposure.

**CASE STUDY:**
**Two Different Companies and Two Different Outcomes**

The table below shows the financial performance of two entrepreneurs in the same business of distributing precious metals.

<table>
<thead>
<tr>
<th>In $ million</th>
<th>Revenue Focused Company (RF Coy)</th>
<th>Cash Focused Company (CF Coy)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$120</td>
<td>$60</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>4.0%</td>
<td>6.6%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>$4.8</td>
<td>$4.0</td>
</tr>
<tr>
<td>Interest expense per year at 6%</td>
<td>($2.41)</td>
<td>($1.2)</td>
</tr>
<tr>
<td>Increase/Decrease in net receivables</td>
<td>($6.41)</td>
<td>$0.2</td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>($4.0)</td>
<td>$3.0</td>
</tr>
<tr>
<td>Cash used in investing activities</td>
<td>($4.0)</td>
<td>($4.0)</td>
</tr>
<tr>
<td>Financing requirements</td>
<td>($8.0)</td>
<td>($1.0)</td>
</tr>
<tr>
<td>Existing banking facilities</td>
<td>$40</td>
<td>$20</td>
</tr>
</tbody>
</table>
Understanding the Language of Financial Institutions

Scenario
• The Revenue Focused Company (RF Coy) was able to distribute and generate sales of $120 million through its regional distributors and agents.
• The Cash Focused Company (CF Coy) generated sales of $60 million through direct selling methods to reach customers in the region.
• Both intend to invest in a $4-million facility to buy equipment to provide engineering services to its customers.
• Both wanted a 3-year term loan of $4 million from ABC Bank to finance their expansion plans.

Outcome
• RF Coy’s application was rejected. ABC Bank also decided to reduce its letter of credit/trust receipt facilities from $40 million to $30 million. RF Coy was forced to scale down its sales and eventually went into financial difficulty.
• CF Coy succeeded in getting the term loan for its new business. ABC Bank also offered to provide a revolving credit line of $2 million.

Why ABC Bank did not lend to RF Coy
ABC Bank’s main concern was whether this new business would be able to generate earnings and cash flows to repay the new term loan. There was no guarantee that this new venture into engineering services would succeed. Hence ABC Bank considered if the existing core business could provide the cash to repay the new term loan.
These are the key financial ratios that ABC Bank looked at:

### Interest coverage ratio

Measures the strength of the business to service its interest obligations.

1. **Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)**

   \[ \text{EBITDA} / \text{Annual Interest} \]

   RF Coy’s current interest coverage ratio is 2, while CF Coy’s is 3.3. CF Coy is in a better position to service its interest expenses.

2. **Cash Flow From Operations Before Interest Payment**

   \[ \text{Cash Flow From Operations} / \text{Annual Interest} \]

   RF Coy's negative cash from operations of S$4 million worries the bank. Although it has a positive EBITDA, it is not able to collect faster and its net receivables have increased by $6.4 million mainly from its regional distributors and agents. CF Coy is in a better position as it does not have a build-up of receivables and is able to generate positive cash flow from operations of S$3 million.

### Ability to repay debts

1. **Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)**

   \[ \text{EBITDA} + \text{Principal Loan Repayments} / \text{Annual Interest} \]

   In RF Coy’s situation, ABC Bank found that RF Coy would not be able to generate sufficient EBITDA to service the new term loan and interest. Its current negative cash flow from operations confirms that RF Coy is heading towards a liquidity trap.

   In CF Coy’s situation, ABC Bank found that CF Coy is cash flow positive and has a healthy cash position to service new loans.

Financial institutions usually examine the cash flow statements to confirm the reliability of using EBITDA as a measure of the company’s ability to repay debts.
In RF Coy’s application, the negative cash flow from operations of $4.4 million, the build-up of its receivables position, mainly due to its overseas distributors and agents, and its weak interest cover alarmed ABC Bank.

In CF Coy’s case, it secured the term loan for its new business. ABC Bank was comfortable with the prudent management style of CF Coy and was prepared to provide more loans to CF Coy.

Lessons for Entrepreneurs
Most SME entrepreneurs keep track of their revenue and profits by looking at their profit and loss statement. As long as it shows a profit, entrepreneurs usually assume that profit is the same as cash, but that may not be true.

It is critical for entrepreneurs to scrutinise their cash flow at all times. Read on to learn how you can better manage your cash flow.
Managing Working Capital

To manage working capital effectively, you need to manage the 4 Cs. You can do this by:

- Collecting payment faster than the credit terms provided by your suppliers. This way, you will not need to use your credit facilities to pay off your suppliers first before collections come in.
- Reducing inventory levels. This will reduce your need for credit facilities and cash, and result in bank interest savings. The operating cash flow can be used to boost sales or for investment.
- Negotiating for a longer credit period and increased credit terms with your suppliers. This will decrease reliance on your principal bankers.

Any of the above will improve the management of your working capital.

Cash - the Lifeline of Any Business
Cash flow is undeniably the lifeline of every business regardless of its stage of development. Managing a sustainable business in a volatile business environment requires adequate cash flow and funding. Most businesses fail because entrepreneurs do not manage their working capital well.

It is important to know how much money you need to run your type of business as the business cycle of each business is unique, with its own sales trends, stock holding period as well as payment and collection patterns. Each cycle starts from the day you receive an order from your customers and ends when you collect cash from your customers.

Key Elements of Working Capital Management
There are two elements in the business cycle that use cash - inventory (stocks and work-in-progress) and receivables (money debtors owe you).

The main sources of your working capital are the 4 Cs:

- Collections (when debtors pay you)
- Credit terms (when your creditors provide credit)
- Credit facilities (where your banks provide you with letters of credit, factoring lines, trust receipt facilities)
- Cash (when you raise capital)
At first sight, many businesses can appear very different. One is an established electronics retailer. The other is a home-grown jeweller renowned for its fine craftsmanship. Yet, both are family-run businesses and third-generation stewards of longstanding enterprises. Both respect the leadership of the family elders, despite the business degree earned by the youngest in the family. With such seemingly different businesses, it might be hard to see any connection between them. At HSBC, we take the time to understand our clients’ businesses, their goals and ambitions. We look beyond their financial statements to develop deep insights into both their similarities and differences, which helps us to help them manage their growth. This type of keen insight is what makes HSBC Commercial Banking a preferred partner among a wide range of businesses in Singapore. To find out more, call us on 1800 216 9008 or visit hsbc.com.sg
Managing Working Capital

How to Calculate Your Business and Trade Cycles
To determine the number of working capital cycle days required to run your business, you need to plot your business and trade cycles.

In the example given, this company has a business cycle of 240 days from the time it places an order for raw materials to the time it collects payment from customers. The supplier’s trade terms is 60 days but by then, the company has just received the materials from its overseas supplier. It has to use the trade facilities from financial institutions to pay the supplier and extend the credit period by 60 days. By that time, the company would have just completed fabrication and installation. We can see that this business has a funding gap of 75 days, which has to be met by its internal cash resources. Alternatively, it can factor its invoices to the bank to bridge this funding gap of 75 days.

We encourage you to plot your business and trade cycles and share these with your bankers who can structure appropriate working capital facilities for your entire business cycle.
Managing Working Capital

The table above shows a business with projected sales of $25 million and projected purchase requirement of $20 million. The business cycle for sales to Europe is 195 days, while the cycle for Asia Pacific takes 150 days.

The trade lines required for sales to Europe are worked out by dividing the annual purchases of $10 million by 360 days and multiplying by 195 days. The credit facilities required from financial institutions are therefore $5.4 million. Using the same calculation method, the trade lines required for sales to Asia Pacific are $4.2 million. The current trade lines available are $4 million (financial institutions and creditors), hence another $5.6 million is needed to support growth in new sales.

By doing a simple calculation like this, you can show your bankers why you need to increase your credit facilities and how you plan to use the new facilities.

Working Out Your Working Capital Lines for Your Business

<table>
<thead>
<tr>
<th>(expressed in S$ million)</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$12.5</td>
<td>$12.5</td>
<td>$25.0</td>
</tr>
<tr>
<td>Purchases required</td>
<td>$10.0</td>
<td>$10.0</td>
<td>$20.0</td>
</tr>
<tr>
<td><strong>Business cycle (days)</strong></td>
<td><strong>195</strong></td>
<td><strong>150</strong></td>
<td><strong>9.6</strong></td>
</tr>
<tr>
<td>Trade lines required</td>
<td>$5.4</td>
<td>$4.2</td>
<td>$9.6</td>
</tr>
<tr>
<td>Available trade lines</td>
<td>$4.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional trade lines required</td>
<td>$5.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Two of the greatest challenges facing growing businesses are capacity management and capital budgeting. Capital investments are long-term investments that use future cash flows to repay bank borrowings taken to finance them. A wrong decision can be fatal to the company. Many companies do not carry out sufficient evaluation when making capital budgeting decisions.

The following case study provides many useful lessons for businesses that are thinking of investing in new premises and new equipment.

CASE STUDY:
A Precision Engineering Services Company which Invested in a Large Factory

The entrepreneur decided to invest in a new factory for the following reasons:

- Business was so good that he had to turn away customers.
- Existing factory space was too small to cater for future expansion.
- Jurong Town Corporation (JTC) offered a new place five times the size of his current factory. He did not require such large premises but he thought it was an attractive offer as he could sublet the unused space.
- His principal bankers offered to finance the entire construction cost of $12 million over 2.5 years, which he could repay over 10 years.
- His current EBITDA was $2 million, which he expected to grow to $4 million with the new premises. The annual loan repayment and interest is $1.7 million. He thought he would have no problem servicing the term loan as his future EBITDA of $4 million provides 2.3 times cover for the amount he has to service.
Managing Capital Expenditure

For the reasons given, the entrepreneur went ahead with the construction. In the meantime, he took up a short-term lease of 3 years and purchased new equipment to cope with the increase in orders. Three years later, the company shifted to the new premises. While its sales increased 2-fold, EBITDA remained at $2 million and the company struggled to pay off the $12-million term loan. What went wrong?

The entrepreneur made the following mistakes:

- He was in the business of providing engineering services, which require skilled engineers and production equipment, not factory premises. The move to take up a short-term lease and lease new equipment to cope with more orders would have addressed his immediate needs. The decision to invest in the new JTC premises was hence not urgent nor relevant. The fact that the offer from JTC was attractive and he could sublet the unused space was also irrelevant.

- He did not need five times more space than his current premises. He paid the high cost of construction, which did not benefit his core business. The additional burden of repaying the $12-million bank loan ate into his future operating cash flow.

- He also did not consider the high fixed operating costs (such as ground rent, utilities bills, property taxes, etc.) that came with a big building. This meant that he needed a higher sales volume to cover his fixed costs. He lost his flexibility to choose the right customers and was forced to fill his large capacity with orders that made lower or no profit margins. The combination of lower profit margin and higher operating cost caused his EBITDA to deteriorate even though sales increased.
Lessons for Entrepreneurs

The case study highlights the importance of focusing on the objective as well as business and revenue models of the business. When deciding whether to proceed with a capital investment, ask these questions:

- How will this capital investment strengthen my competitive edge against my competitors?
- How will this capital investment create more value for my customers who will be willing to pay for the additional value and benefits that I can generate?
- How will this capital investment change my fixed operating cost structure and what is my new breakeven sales target for the higher fixed operating cost structure?
- What kind of revenue and earnings should I expect from this capital investment?

Most entrepreneurs do not spend enough time to consider the questions above. Instead, they dedicate more time to raising funds for the capital expenditure. It is important that these questions are answered first before considering the various financing options for the capital expenditure.

Power your business with up to $150,000.

With an OCBC Business Term Loan, you can obtain unsecured funds of up to $150,000 within 5 working days to grow your business.

Designed to be convenient and flexible, it even allows you to ‘top up’ the loan amount after 2 years without having to submit any document. So you will always have the financial means to seize new business opportunities.

To seize more opportunities, call us now at 1800-538-1111 and enjoy our low interest rate from 0.91% per month.

It’s a fast, simple and convenient way to give your business a boost.

OCBC Business Term Loan

Terms and conditions governing the Business Term Loan apply. The loan top-up is subject to the Bank’s discretion to approve and subject to satisfaction of any criteria upon customer’s application for the same. No further documentary evidence is required for the purposes of such application. Turnaround within 5 working days is applicable to duly completed application with full documentary support. The approximate interest rate of 0.91% per month is derived from the effective interest rate of 10.87% p.a.

Ask OCBC

www.ocbc.com
## OVERVIEW OF KEY SERVICES AND FINANCING PRODUCTS OF FINANCIAL INSTITUTIONS IN SINGAPORE

<table>
<thead>
<tr>
<th>Name of Financial Institution</th>
<th>Website</th>
<th>Contact Information</th>
<th>Branches</th>
<th>Prime Lending Rate*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ABN AMRO N.V.</strong></td>
<td><a href="http://www.abnamro.com">www.abnamro.com</a></td>
<td>Tel: 6518 8888 Fax: 6518 6036</td>
<td>53</td>
<td>5.5% (SGD) 5.25% (USD)</td>
</tr>
<tr>
<td><strong>Citigroup Corporate and Investment Banking</strong></td>
<td><a href="http://www.citibank.com/singapore/corporate">www.citibank.com/singapore/corporate</a></td>
<td>Tel: 6328 5500 Fax: 6328 5887 Email: <a href="mailto:cbgsops@citigroup.com">cbgsops@citigroup.com</a></td>
<td>84</td>
<td>5.75% (USD) 5.70% (SGD)</td>
</tr>
<tr>
<td><strong>DBS Bank Ltd</strong></td>
<td><a href="http://www.dbs.com">www.dbs.com</a></td>
<td>Tel: 1800 222 2200</td>
<td>21</td>
<td>5.25% p.a. 5.0% (SGD)</td>
</tr>
<tr>
<td><strong>HSBC Ltd</strong></td>
<td><a href="http://www.hsbc.com.sg/hsbccommercial">www.hsbc.com.sg/hsbccommercial</a></td>
<td>Tel: 1800 538 1111</td>
<td>62</td>
<td>5.75% p.a. 6.875%</td>
</tr>
<tr>
<td><strong>MayBank</strong></td>
<td><a href="http://www.maybank2u.com.sg">www.maybank2u.com.sg</a></td>
<td>Tel: 6323 2001/6320 0663</td>
<td>19</td>
<td>6.875% 5.33%</td>
</tr>
<tr>
<td><strong>Oversea-Chinese Banking Corporation Ltd</strong></td>
<td><a href="http://www.ocbc.com">www.ocbc.com</a></td>
<td>UOB Corporate Call Centre: 1800 22 66 121</td>
<td>1</td>
<td>28</td>
</tr>
<tr>
<td><strong>RHB Bank</strong></td>
<td><a href="http://www.rhbbank.com.sg">www.rhbbank.com.sg</a></td>
<td>UOB Banking Hotline: 1800 745 3000</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td><strong>United Overseas Bank Ltd</strong></td>
<td><a href="http://www.uobgroup.com">www.uobgroup.com</a></td>
<td>Tel: 6370 7711 Email: <a href="mailto:marketing@uobcapital.com.sg">marketing@uobcapital.com.sg</a></td>
<td>1</td>
<td>5.75% p.a. 6.875%</td>
</tr>
<tr>
<td><strong>Standard Chartered Bank</strong></td>
<td><a href="http://www.standardchartered.com.sg">www.standardchartered.com.sg</a></td>
<td>UOB Corporate Call Centre: 1800 22 66 121</td>
<td>1</td>
<td>5.33%</td>
</tr>
<tr>
<td><strong>IFS Capital Limited</strong></td>
<td><a href="http://www.ifscapital.com.sg">www.ifscapital.com.sg</a></td>
<td>Tel: 6339 3622 Email: <a href="mailto:marketg@ifscapital.com.sg">marketg@ifscapital.com.sg</a></td>
<td>6270 7711</td>
<td>Head Office: 6305 0300 Ang Mo Kio: 6456 0588 Bedok: 6445 9596 Clementi: 6775 7248</td>
</tr>
<tr>
<td><strong>Sing Investments &amp; Finance Ltd</strong></td>
<td><a href="http://www.sif.com.sg">www.sif.com.sg</a></td>
<td>Tel: 6226 3822 Customer Service Centre: 6416 2777 Email: <a href="mailto:customerservice@hlf.com.sg">customerservice@hlf.com.sg</a></td>
<td>6226 3822</td>
<td></td>
</tr>
</tbody>
</table>

### FINANCING FACILITIES

- **Overdraft**
- **Import Trade**
- **Export Trade**
- **Bill Factoring**
- **Bridging Loan**
- **Term Loan**
- **Hire Purchase Loan**

### OTHER SERVICES

- **Insurance**
- **Treasury**
- **Corporate Cards**
- **Electronic or Internet Banking**
- **Capital Markets**

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*Accurate at time of printing and subject to changes*
## GLOSSARY OF FINANCIAL TERMS

<table>
<thead>
<tr>
<th>List of Terms</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset conversion cycle</td>
<td>The number of days a business takes to convert purchases into sales and collections.</td>
</tr>
<tr>
<td>Bills discounting</td>
<td>A facility granted by banks to selected customers with good financial standing and integrity to finance their import and export trade transactions. The financing period is usually 30 to 90 days.</td>
</tr>
<tr>
<td>Bonds</td>
<td>A certificate of debt issued to raise funds. Bonds typically pay a fixed rate of interest and are repayable at a fixed date.</td>
</tr>
<tr>
<td>Business Angels Scheme (BAS)</td>
<td>A S$30-million fund administered by SEEDS Capital Pte Ltd, a subsidiary of the Economic Development Board, that aims to stimulate entrepreneurship and technopreneurship in Singapore.</td>
</tr>
<tr>
<td>Capital budgeting</td>
<td>The process of managing capital assets and planning future expenditure on capital assets.</td>
</tr>
<tr>
<td>Capital investments</td>
<td>Funds invested by a business in its capital assets that are anticipated to be used before being replaced. Capital investments are generally significant business expenses, requiring long-term planning and financing.</td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>Cash generated from the operating activities of the business.</td>
</tr>
<tr>
<td>Commercial papers</td>
<td>Debt instruments issued by established corporations to meet short-term financing needs. Such instruments are unsecured and the maturity period ranges from 2 to 270 days.</td>
</tr>
<tr>
<td>Convertible loans</td>
<td>A loan with a provision allowing it to be converted to equity within a specific time frame.</td>
</tr>
<tr>
<td>Convertible preference shares</td>
<td>Preference equity shares issued by a business that include a provision allowing them to be converted to ordinary equity shares after a specific time frame.</td>
</tr>
<tr>
<td>Creditors or Accounts payable</td>
<td>Suppliers the company owes money to, usually for services or goods supplied.</td>
</tr>
</tbody>
</table>
## Glossary of Financial Terms

<table>
<thead>
<tr>
<th>List of Terms</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors’ turnover rate</td>
<td>A short-term liquidity measure used to quantify the rate at which a business pays off its suppliers.</td>
</tr>
<tr>
<td>Debt financing</td>
<td>The money that you borrow to finance a business.</td>
</tr>
<tr>
<td>Debtors or Accounts receivable</td>
<td>Customers who owe the company money, usually for services or goods supplied.</td>
</tr>
<tr>
<td>Debtors’ turnover rate</td>
<td>A short-term liquidity measure used to quantify the rate at which a business receives payment from customers.</td>
</tr>
<tr>
<td>Default risk or Risk of default</td>
<td>The risk of loss due to non-payment by the borrower.</td>
</tr>
<tr>
<td>EBITDA</td>
<td>The earnings before interest, taxes, depreciation and amortisation. It is the net cash inflow from operating activities, before working capital requirements are taken into account.</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>A measure of operating performance. It is calculated by dividing EBITDA by sales and is usually expressed as a percentage.</td>
</tr>
<tr>
<td>Enterprise Fund</td>
<td>Created and sponsored by International Enterprise Singapore and Hong Leong Finance to provide proven and growing asset-light and traditional businesses with financial solutions that are customised to their specific funding requirements. By injecting capital into growing Singapore-based businesses, the Enterprise Fund hopes to enable them to grow at a faster pace and become successful international businesses. The Enterprise Fund is independently managed by Crest Capital Partners Ltd.</td>
</tr>
<tr>
<td>Equity financing</td>
<td>The issuance of ordinary shares to raise money for a business.</td>
</tr>
<tr>
<td>Factoring</td>
<td>Selling the interest in the accounts receivable or invoices to a financial institution at a small discount. It is sometimes called “accounts receivable financing.” Factoring helps a company speed up its cash flow so that it can more readily pay its current obligations and grow.</td>
</tr>
</tbody>
</table>

**UOB SME CASH – Ready cash when you really need it.**

UOB SME CASH is an overdraft facility that gives you the convenience of having ready cash for your business use anytime. It also offers the following benefits:

- High credit limit of up to S$200,000
- Interest rate from as low as 1% per month
- Low repayment instalments
- Hassle-free application
- Easy access to cash with your own cheque book and ATM card (at any UOB ATM)
- 24-hour Online Banking

Apply now! Enjoy a waiver of the first year’s annual fee of S$50 when you apply for UOB SME CASH today!

Visit www.uobgroup.com for more information and an application form or call our Retail Commercial Banking officers:

Damien Goh: 6277 7589  Daisy Tan: 6277 7567

Alternatively, visit your nearest UOB branch for more details.
<table>
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<tr>
<th>List of Terms</th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td>Growth Financing Programme (GFP)</td>
<td>Designed to support early-stage, Singapore-based companies with the potential to become globally competitive enterprises. Companies that have successfully completed their product development with early customer traction can apply for equity financing for earnest overseas market expansion activities through this programme.</td>
</tr>
<tr>
<td>Initial public offering (IPO)</td>
<td>The sale of a company’s shares to the public on a stock exchange for the first time.</td>
</tr>
<tr>
<td>Interest coverage ratio</td>
<td>An indication of the ability of a business to cover interest expenses with its income. It is calculated by dividing income before interest and taxes by interest paid.</td>
</tr>
<tr>
<td>Internationalisation Finance Scheme (IF Scheme)</td>
<td>Developed by International Enterprise Singapore and designed to support Singapore-based companies’ overseas expansion activities by co-sharing their default risks with participating financial institutions. Loans can be used to acquire fixed assets for overseas use and fund overseas projects and sales orders.</td>
</tr>
<tr>
<td>Letter of credit</td>
<td>A written undertaking by a bank, given to a seller at the request and on the instruction of the buyer, to pay up, at sight or at a future date, up to a stated sum of money within a prescribed time limit.</td>
</tr>
<tr>
<td>Trust receipt</td>
<td>A financing facility for imports where a bank makes an advance to the buyer to settle an import sight bill. The advance is generally for a certain period. On the due date, the buyer is required to settle the bill with interest at an agreed rate.</td>
</tr>
<tr>
<td>Loan Insurance Scheme (LIS)</td>
<td>Developed by SPRING Singapore and International Enterprise Singapore to offer Singapore-based companies an additional source of financing. LIS is a variable-cost financing scheme that meets a company’s short-term financing needs in Singapore and overseas.</td>
</tr>
<tr>
<td>Local Enterprise Finance Scheme (LEFS)</td>
<td>A fixed interest rate financing programme offered by SPRING Singapore to encourage and assist local enterprises to upgrade, strengthen and expand their operations, as well as to meet their working capital needs. Types of loan include factory loan, machinery term loan/hire purchase and working capital loan or factoring loan.</td>
</tr>
</tbody>
</table>
**Glossary of Financial Terms**

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Micro Loan Programme</td>
<td>Offered under the Local Enterprise Finance Scheme, the micro loan provides financing of up to $50,000 for smaller businesses with less than 10 employees.</td>
</tr>
<tr>
<td>Nominated advisor (NOMAD)</td>
<td>A company that has been approved as a nominated advisor for the Alternative Investment Market (AIM) by the London Stock Exchange. The primary responsibility of a NOMAD is to help a new company gain admission to the AIM and provide advice to avoid delisting.</td>
</tr>
<tr>
<td>Profit margin</td>
<td>A measure of a company’s profitability. It is calculated by dividing net profit by sales and is usually expressed as a percentage.</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>A measure of the return on each dollar of shareholder investment. It is calculated by dividing net profit by equity and is usually expressed as a percentage.</td>
</tr>
<tr>
<td>Start-up Enterprise Development Scheme (SEEDS)</td>
<td>An equity financing programme designed to provide capital for innovative start-ups. The Government will match every dollar raised by the start-up from private third-party investor(s), up to a maximum of S$300,000.</td>
</tr>
<tr>
<td>Stock turnover</td>
<td>A measure of inventory performance to show how fast stock is converted from purchases to sales. It is calculated by dividing stock level by cost of sales x 365 days.</td>
</tr>
<tr>
<td>Syndicated loan</td>
<td>A large loan provided to a borrower by a group of banks that work together. There is usually one lead bank that provides a small percentage of the loan and parcels the rest to other banks.</td>
</tr>
<tr>
<td>Term loan</td>
<td>A loan for a fixed period of more than one year and repayable by regular instalments.</td>
</tr>
</tbody>
</table>

**ORIX Leasing Singapore Limited**

331 North Bridge Road
#19-01/06 Odeon Towers
Singapore 188720
Telephone: 6339-3622
Fax: 6339-3966
http://www.ols.com.sg

**ORIX Leasing Singapore Limited** (formerly known as Orient Leasing Singapore Limited) was established in Sep 1972. The shareholders of ORIX Leasing Singapore Limited (“ORIX”) are: ORIX Corporation, Japan (50%) DBS Bank Ltd (30%) and United Overseas Bank Limited (20%).

Since its inception, ORIX has been actively providing financial assistance mainly to small and medium-sized enterprises (SMEs) from various industries. ORIX’s financial services include asset-based financing, cross-border financing and receivables financing.

In April 2002, ORIX was admitted by the Standards, Productivity & Innovation Board (SPRING Singapore) as a Participating Financial Institution (PFI) of the Local Enterprise Finance Scheme (LEFS), which offers low-cost fixed interest rates to meet the financing needs of the SMEs.

ORIX’s policy of maintaining a broad financial base and a pool of experienced staff who know their business as well as yours, ensures that ORIX will stay well ahead of the time.

At ORIX, we make things simple for you. We believe in giving you our personalized service and will take time to listen, discuss and understand your needs.
<table>
<thead>
<tr>
<th>List of Terms</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Credit Insurance (TCI)</td>
<td>Developed by International Enterprise Singapore together with ECICS Ltd and QBE Insurance to offer trade credit insurance at very attractive premium rates. By pooling demand for trade credit insurance, thereby generating economies of scale and diversification of risks, the TCI programme is able to offer premium rates normally available only to companies with significant trade volumes.</td>
</tr>
<tr>
<td>Working capital</td>
<td>The amount of capital or current assets available for operating the business. It is calculated by subtracting current liabilities from current assets.</td>
</tr>
</tbody>
</table>
For more information on government financing schemes for SMEs, please contact EnterpriseOne at:

Website: www.business.gov.sg
Email: enterpriseone@spring.gov.sg
Tel: (65) 6898 1800
Operating hours: 8.30 a.m. - 6.00 p.m. (Mon - Thu)

We believe that Asia’s history is rich in ideas that are waiting to resurface. Our expertise in Asia and international banking standards provide the vital support to help you bring them to life. We’ll invigorate all aspects of your business – whether it involves planning for the future or getting inspiration from the past. To find out more about Singapore’s largest bank and Hong Kong’s fifth largest banking group, visit www.dbs.com today.

“IT IS SAID THE ART OF CHEONGSAM MAKING WAS PERFECTED CENTURIES AGO. I BEG TO DIFFER.”

There are many great ideas from Asia’s past. We’re here to help make sure they live on in the future. DBS. Living, Breathing Asia.