How to bank-finance my investment?

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Inc PAPAYA (p. 18)

(in thousand €)

Assets	Liabilities
Fixed assets: 5000	Equity: 4000 *(cap 2500/leg.res 250)*
--	Long term loan: 3000
Current assets: 20 000 *Of which stocks: 9 000* *Receivables: 10 000*	Short-term loan: 18000 *accounts payable: 12 000*

Papaya Inc.

IN 000€	costs	Revenues
Turnover		75 000
Goods and services	60 000	
Salaries and social charges	11 000	
Depreciations	1 000	
Total operating expenses	72 000	
Operating profit		3 000
Balance after financial result		2 500
Balance after exceptional result		2 250
Taxes		750
Net result		1500

INVESTMENT

- New investment opportunity: **High efficiency Low Cost Fixed Port Container Portal Crane**
- Investment of 7 million euro, amortisable on 7 years; economic impact of investment 7 yrs.
- Existing turnover kept but cost of services decreases by 2 million/year (less outsourcing)
- Corporate tax = 28 %; the hurdle IRR = 12%.
- Is investment worthwhile? (leaving financing aside)

Financing options

Although undercapitalized, owner refuses to open capital; Reluctant to mezzanine, and surely not convertible or warrantable.

Analyze each option from the 'financiers' point of view:

- make concrete proposal (amount, reimbursement modalities, guarantees (if any), ...

- make new master plan (balance structure + P&L)

- make risk analysis

- and conclude: feasible or not?

Options to consider

- Option 1: doubling the capital (owners' money) and classical bank investment credit@5%if proven payback capacity and limited guarantees
- Option 2: better financial management (sector average rotations: stocks: 31 days; customer 30 days; supplier: 70 days) and gradually, residual, diminishing straight loan
- Option 3: non-convertible mezzanine@25% and propose return kicker (no guarantees)
- Option 4: classical bank investment credit @ 5% if proven payback capacity and guarantees