



THE ASSETS ACCOUNTING – SUPPORT OF THE LENDING PROCESS ANALYSIS

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Abstract *The financial documents underlying the analysis of credit are the annual accounts. The financial statements of a company contain a series of relationships characteristic to the type of activity undertaken by it, and they can be described by analyzing individual components of each financial statement and financial ratios.*

Key words:

*assets accounting,
lending process, risk,
loan decision,
financial statements*

JEL Codes:

M41

1. INTRODUCTION

The main purpose of the analysis is to identify credit risk that lies in lending transactions, in formulation of conclusions on the likelihood of repayment, and of advices regarding the appropriate loan facility's type and structure, given the noted needs and risks and also the bank's profit maximization.

Lending is, in essence, subjective, but can be determined by objective knowledge on the history of the company, business and its management through strict information. The information is the most important instrument of the credit analyst, this being an analyst who effectively identified all the ways that lead to obtaining information.

Lending decisions may not be entirely based on manual techniques or analytical lending techniques. The credit analyst must demonstrate good court sense and a clear judgment and must be careful not to omit any significant detail.

CASE STUDY

The main features of the credit analysis are:

- the analysis of credit consists of qualitative and quantitative analysis of a company and contributes to determining the your ability to meet debt service, or how to repay the bank the amount borrowed plus interest or to pay other creditors the amounts due;

- the analysis of credit aims to identifying, evaluating and reducing those risks which have as an effect company's inability to pay obligations to its creditors;

- the credit analysis involves examining the links between performance / capacity of management and functional relationships between company's assets, liabilities and equity, as they appear in the balance sheet and the profit and loss account and cash flow statement.

Evaluating the information in the financial statements reflects the company's annual performance and efficiency and provides a picture on the likelihood that the company to return the debt contracted and interest in the future.

It is necessary that the credit analysis to include personal knowledge of clients and the work efficiency of management practice, familiarity with the nature of the client. Furthermore, it should be a personal knowledge on the place of the business, economic trends, political and local rules and practices and the business sector, all these being part of the company's global equity.

All loans are loans to company management. This means that the bank grants a loan only when it has full confidence in the ability of the company's management; after all, the repayment of the loan is depending on this ability.

The conversion cycle of assets illustrates the process by which a company uses cash to generate more cash. Cash is used to purchase raw materials, to produce goods that are going to be sold later.

The reason for conducting an activity consists in generating additional cash at the end of the cycle from the beginning through the added value gained from producing a good for which demand exists on the market. All firms' managers' wish is to perform a cycle of operation as quickly as possible and continuously. Analyzing this process helps to establish the capability of the company to meet its obligations to you, of all those involved in its activities.

The financial documents underlying the analysis of credit are the annual accounts. The financial statements of a company contain a series of relationships characteristic to the type of activity undertaken by it, and they can be described by analyzing individual components of each financial statement and financial ratios.

Rates are useful in the analysis, they synthesize in conveniently a large volume of data in a form which is easier to understand, to interpret and to compare. However, they present certain limits to be considered for each case.

In comparing rates from different periods should be considered that the conditions can differ from one period to another. Rates are not a purpose of the process of analysis and do not involve themselves in positive and negative elements of the society's functioning or its management. They only show areas which require further investigation. Therefore before we draw conclusions on the work undertaken and we make recommendations regarding measures to be taken in the following period, the rates determined based on the annual financial statements should be linked with the investigation of other factors like economic, social, political, etc..

In the analysis based on activity rates the following aspects should be considered:

- the rates do not provide answers for analysis, but help to focus and to target the formulation of questions. The objective of analyzing the variation in rates is determining the causes and effects of the company's ability to repay the debt contracted;
- a single rate or even more are likely to mislead, but combined with other data about management business and economic conditions, lead to an analysis of rates that provides a clear picture of activity. The finding regarding the fact that the value of a certain rate is too high, too low or appropriate depends on criteria related to the analyst and the company business, industry and competitive strategy. You have to study the variations of these rates over a period of time to determine the functioning of products and their possible impact on its equity;
- when some rates deviate significantly from the average level of branches activity, should be explored the causes

leading to this situation and should be evaluated the effect on the company's market position.

Credit analysis is a laborious task, for which we present the whole process of design and analysis of a credit file.

I. NAME, ESTABLISHMENT , MAILING ADDRESSES

Name : SC GAMMA SRL
Establishment date : 1999
Mailing Address : Dimitrie Gusti Street, nr. 13, sector 2, Bucharest, Romania
Fiscal Code : RO 663499
Registration Number : J 40/3XXX/13.03.1999
Tel : +40 (21) 3XX.YY.ZZ
E-mail : textil@yahoo.com

II. SUMMARY OF ACTIVITIES

Shareholders : POPESCU DAN 00.02%
: ION DUMITRU 99.98%
Business activity : importer and distributor of textile products
Sector focus : trade with textile products
Main market : Romania
Recent turnover : EUR 717,724 – Dec 2007
: EUR 629,826 – Dec 2006

III. RELATIONS WITH BCX INTERNATIONAL

TEXTIL SRL is a prospect SME client of BCX International. For the moment they are banking with Credit Europe Bank and also BCR. Though they had been granted credits by both banks, the CRB records of the company are clean, proving themselves to be serious in reimbursing the funds and paying the fees in time.

Based on the good credit records and the information we learned about the company, we have approached them in order to grant a line of credit of USD 130,000 against performed receivables.

In case of granting the line of credit, GAMMA SRL shall route through BCX International, Romania Branch, and a turnover of, at least, EUR 50,000 a month.

IV.SHAREHOLDERS AND MANAGEMENT

Shareholders of SC GAMMA SRL:

Name of the Shareholders	Value (EUR)	Weight (%)
POPESCU DAN	13	00,02 %
ION DUMITRU	55.987	99,98 %
TOTAL	56.000	100%

The management structure:

Name	Responsibility / Title
POPESCU DAN	Managing Partner and Administrator
ION DUMITRU	Managing Partner

Administrators:

Name	Title
POPESCU DAN	Managing Partner and Administrator

The company had been founded in 1999, but only in year 2000 it was taken over by Mr. Popescu Dan as sole shareholder. The activity started in the same year and GAMMA SRL functions in textile domain ever since. In 2003, a new shareholder enters the firm, Mr. Ion Dumitru, with majority of shares (99,98%), and Mr. Popescu Dan maintains her shareholder position with 00,02% shares. This structure is preserved till present.

1. Mr. Ion Dumitru has the following responsibilities in GAMMA SRL:

- Finding new suppliers and developing the existing relations with the actual ones;
- Negotiating the terms and conditions with the suppliers and signing the contracts;
- Finding new clients and developing the existing customer relations;
- Follow the import of goods.

2. Mr. Popescu Dan is in charge with important tasks, as it follows

- Identify and contact potential clients;
- Negotiate contracts (specifications, prices payment terms, guarantees, etc.);
- Follow up the imports in order to meet customers orders and respect the delivery terms;
- Supervise the sale and dispatch of yarns, collection of receivables, management of inventories;

- Developing other relations with other institutions as well of banks, factoring companies etc.
- Day to day management.

V. COLLATERAL Collateral type

- Loan agreement signed by GAMMA SRL as debtor and by following persons:
 - Mr. Popescu Dan;
 - Mr. Ion Dumitru.
 As co – debtor and guarantors;
- Checks and P/Ns endorsed in bank's favor, coverage 120%. Promissory notes and checks issued by companies which comply with our bank internal requirement for payment incidents shall be accepted;.
- Maximum exposure accepted for any issuer of checks / P/Ns shall not exceed 20% of the approved limit;
- Pledge on company's current accounts opened with BCX International, Romania Branch;
- Two P/N's issued by the company and availed by Mr. Popescu Dan, Mr. Ion Dumitru.

Documentation:

- Credit Agreement (General Conditions and Special Conditions to Credit Contract), signed by the company as the main debtor and by Mr. Popescu Dan, Mr. Ion Dumitru as co-debtors;
- Pledge on current accounts contracts shall be signed by the company for the accounts opened with our bank
- Checks and P/N's will be presented together with the list of the related invoices.

- The company shall route through our Bank a weight of the monthly equal with EUR 50.000.

VI. PROPOSED LIMIT STRUCTURE, RISK MIGRATION

We propose to grant a working capital loan to GAMMA SRL in amount of USD 130,000 under the following limit structure:

Convening:

Proposed Limit Structure

Limit Definition	Limit Amount (USD)	Max. Tenor
(A) Credit Risk Category 10 – Non Trade Related Transaction Category: W/C FCY / LCY Package: WC Cash FCY / LCY – Line of credit revolving Product: WC Loan Rotate FCY/ LCY – INTERIM TENOR Max. tenor: 3 month	130.000	3 month
Total Unsecured Limit	USD 130.000	

Under the proposed limit we are going to finance working capital requirements of the customer, such as:

payments to suppliers, payments of utilities, payments of VAT related to imports, payments to state budget, payments of salaries, leasing payments

Pricing Conditions (USD):

Interest Rate	LIBOR (1M) + 4% p.a. payable monthly	(tenor 3 months)
Granting Commission	1% p.a. flat at granting	(tenor 3 months)
FX Commission	1% p.a.	(tenor 3 months)
All in return	LIBOR (1M) + 6% p.a	
RON		
Interest Rate	BUBOR (1M) + 4% p.a. payable monthly	(tenor 3 months)
Granting Commission	1% p.a. payable quarterly	(tenor 3 months)
All in return	BUBOR (1M) + 5%p.a.	

Most part of the utilizations shall be in USD but the company may also have RON utilizations in case of VAT and other LCY payments.

DEROGATIONS FROM SME'S PROCEDURES:

- limit validity, one year instead of 6 month;
- accept maximum exposure per each assigned debtors on Annex 1, instead of 10 %, based on good business with the customer and recommendation from the company;
- accept the pricing proposal A/M instead of standard Libor/Bubor 6 M + 5 %.

-although some of the assigned debtors have overdue debts to state we have to take into account the fact that the debts are small when comparing with 2006 T/O (less than 5%) and debts compensation procedure was initiated;

BCX International will enter into financing when we will have the proof of the goods delivered, such as checks and P/Ns. Risks assumed are: repayment risk related to GAMMA SRL clients, Balance Sheet repayment risk, FX risk.

Repayment Risk: For all of the utilizations, the source of the repayment is known before the financing is utilized. At this stage the repayment ability of the

GAMMA SRL customers becomes important, as the risk will be primarily repaid by them on or before the maturity of the subject utilization.

Risk mitigates:

- **Traditional and good quality customer relationship** as the issuers of checks and P/Ns shall comply with eligibility conditions mentioned in Collateral Chapter in order to minimize the potential default risk. GAMMA SRL started its activity in January 2000. During this time the shareholders created and developed a valuable customer database, and they kept the collaboration only with the ones that showed trust and professionalism.

Balance Sheet Repayment Risk: As a secondary source of repayment, the bank is also relying on the balance sheet repayment risk of our customer.

Risk mitigates:

- **Balance Sheet strength** is further examined under Financial Analysis chapter. Thus, the analysis regarding the risks inherent to the Balance Sheet Repayment shall be presented in that later chapter. However we would like to mention that the key financial indicators of GAMMA SRL look very well.
- **Managing Partners with significant experience and dedication for this business-** as mentioned under Chapter III Shareholders and Management, the two managing partners, gained valuable knowledge about the domestic textile market, during a 8 year period of managing this company. That helped them in growing a healthy business under GAMMA SRL name.
- **Solid and trustworthy supplier relations** – due to shareholders experience GAMMA SRL has a very good relation with its main suppliers.:
 - The company is the distributor in Romania for, established in 1976, one of the oldest and largest supplier of yarn, weaving, and knitting

plants (fabric in Crete) and a curtains (fabric in Piraeus) in the Greek market as well as on international market. The company started producing and commercializing polyester yarns starting with year 1989.

- For Yarns and Textures they also collaborate with YARNTEX International, POLIESTER FABRIC.
- In order to extend the range of products offered, starting with 2006, the company began to collaborate with curtains and draperies suppliers. Based on Mr. Adam's good knowledge of the Greek textile industry and good personal relations with many companies in Greece, GAMMA SRL entered commercial relations also with Greek fabrics, such as: ADONYS GAMMA, Dogan Textil, and Karma.

Low FX Risk: The company imports the goods from Greece and is selling exclusively on domestic market. Therefore GAMMA SRL is bearing FX risk for a period of time between import and collection.

Risk mitigates:

- Risk is mitigated by the margins applied (min 5%) when establishing the selling prices for 60 days (longest) deferred payment. Additionally, our mitigates is the coverage of the outstanding risk with pledged receivables of min. 120%.

No Logistic or Production Performance risk is assumed as the bank will finance the company only based on performed receivables.

VII. BANK RELATIONS

According to Banking Risk Central ("CRB") and the information provided by the company's representatives, the exposures towards banks as of July 2010 of GAMMA SRL were as follows:

Bank	Credit Purpose/ Type	Max Tenor/ Maturity	CCY	Max limit (EUR)	Balance July 08 (EUR)			Collateral
					Total	< 1 year	> 1 year	
BCR	Working Capital/ Credit Line	1,5 years / Dec. 2008	RON	72,826	71,891	71,891	-	Mortgage on apartments 130 sm, Com Domnesti, Ilfov, blank PNs, pledge accounts
	OLYMPUS	5 years / Dec. 2010	USD	109,444	109,444	109,444	-	Mortgage on land, Comuna Domnesti, Judetul Ilfov, blank PNs, pledge on accounts
	Investment not credit	15 years/ Apr. 2023	EUR	300,000	300,000	17,600	282,400	Mortgage on land and building, P+1, sector 4, Bucharest, blank PNs, pledge on accounts
Total				482,270	481,334	198,934	282,400	

Note: The EUR amounts as of Jul 2010 have been converted in the RON amounts as per CRB reporting to EUR using the FX rates valid end of July 2010 : 1 EUR = 3.5366 RON; 1 USD = 2.2644 RON

GAMMA also concluded leasing contracts with **Porsche Leasing Romania**, as follows:

Leasing Company		Object Financed	Max maturity	Outstanding as of May 09 (EUR)		
				Total	< 1 year	> 1 year
Porsche Romania	Leasing	Audi A6	Sep-09	21,417	4,709	16,709
Porsche Romania	Leasing	VW Touran	Feb-12	12,814	6,407	6,407
Total				34,231	11,116	23,116

GAMMA SRL was only one time registered in CRB in January 2004 with a delay of less than 7 days for a credit payment, as of April 2010 inquiry. This registration happened due to a misunderstanding between the bank and the representatives of the company concerning a foreign exchange, sent by GAMMA SRL but not received by the bank.

Also, the company is registered with 6 payment incidents in the period between 22.10.2002 and 15.04.2003 in the Central of Payments Incidents ("CIP") to date. The company haven't had any recordings in CIP after the a/m period.

The a/m incidents were caused by a chain reaction produced by the delay of payment from a customer, for the delivered merchandised. The payments of the company were connected to the receivables, and such a delay, disturbed for a short period their cash flow.

As of June 2010 the company is not registered with any overdue debts to the state/other budget, as per the official list published on the Ministry of Finance site.

VIII. OPERATIONS

At the beginning the company imported from Greece only polyester and cotton yarns which were sold on domestic market. It was only in 2005 when they have decided to commercialize also curtains and draperies. All goods are imported from Greece as the basis of firm orders received from GAMMA SRL's customers. The transport cost of the merchandise is on behalf of the company and their movement from Greece to Romania is done in two weeks.

From the moment, the activity of GAMMA SRL is performed in one **headquarter and a working point**, as follows:

- **Head Office address:** Dimitrie Gusti Street nr 13, sector 2, Bucharest, which is the property of the company.

- **Working point address:** Com. Domnesti, jud. Ilfov, also the property of GAMMA SRL.

The imports of the goods are made by trucks, owned by third party transporters. The transport formalities are being organized and paid by the company. The payment term, with company's three main suppliers, is 60 days after CMR date, on open account basis up to a certain credit limit. This limit is 150,000 USD.

Consequently, having such liquid collateral, the supplier OLYMPUS agrees to have longer periods of payment for the merchandise provided to GAMMA SRL.

External suppliers	Country	Goods supplied	Purchases Jan-May 2008	
			Amount (EUR)	% in Total suppliers volume 2008
OLYMPUS	Greece	Polyester yarns	74,708	19%
POLYESTER FABRIC		Texture	97,027	25%
ADONYS GREECE		Curtains	207,609	53%
DOGAN TEXTIL		Curtains	5,022	1%
TOTAL			384,365	99%

In case of distribution to Romania, the goods are mainly taken by the customers directly from the custom warehouse after the import formalities are completed. When quantities are smaller, goods are delivered by third party transportation companies to the end-buyers and the extra transportation cost is supported by the end-buyers.

We have attached a list of **constant clients** of the company:

Domestic Clients	Sales Jan-May 2008	
	Amount (EUR)	% in Total Sales
MARATEX SRL	91,339	23%
MATEX SA	32,131	8%
PRODEXIM COM SRL	110,814	27%
CATY SRL	32,610	8%
NIL INDUSTRIAL SRL	33,911	8%
SIRETUL SA	43,428	11%
LEONARD SRL	13,337	3%
JUSTINNE SRL	46,265	11%
TOTAL	403,834	100%

The **receivables** from customers are collected as follows:

- checks on max 60 days deferred basis – 90%
- checks and promissory notes on max. 30 days deferred basis- 10%

The main **products** distributed on the domestic market are: texture, polyester yarns, cotton yarns, curtains and draperies.

Sales Structure depending on **main products distributed**:

Product	Supplier	Value EUR Jan-May 2007
Texture	POLYESTER FABRIC	101,669
Polyester and cotton yarns	OLYMPUS	78,282
Curtains and draperies	ADONYS GREECE/ DOGAN TEXTIL	222,804
Total		402,775

Targets by the end of 2010

As of June 2010 the company reached a net profit of app EUR 15,000 and a turnover of app EUR 472,000. The estimations for EOY are turnover of app EUR 1,000,000 and net profit of app EUR 50,000 . The estimation is based on the seasonality of textile market which increases the demands for yarn in the second part of the year.

As a future target GAMMA SRL plans to explore curtains and draperies market, approaching new customers, increasing the sales volume with the existing ones and establishing new collaborations with Greek suppliers.

FINANCIAL STATEMENT ANALYSIS

The Financial Statements of the company herein presented are not audited and are prepared in accordance with Romanian Accounting Standards.

SHORT INCOME STATEMENT

(EUR 000s)	Dec. 08	Dec. 09	May. 10
Net Sales	630	718	404
Costs of goods sold	609	673	376
Gross profit	20	45	28
Operating expenses	38	38	25
Operating Profit	(18)	7	3
Financial Income	2	19	21
Financial Expenses	32	21	8
Operating profit after financial expenses	(48)	4	17
Other income	84	-	-
Other expenses	69	3	1
Profit before tax	(33)	2	16
Corporate tax	-	-	3
Net profit / (loss)	(33)	2	13

SHORT BALANCE SHEET

(EUR 000s)	Dec 2008	Dec 2009	May 2010	(EUR 000s)	Dec 2008	Dec 2009	May 2010
Cash & Banks	32	14	50				
Trade receivables	191	223	84	Trade payables	358	407	325
Inventory	78	59	60	Current bank debts	145	165	83
Other acc receivable	-	-	-	Other short – term payables	-	6	17
Other current assets	167	243	282	Other short – term liabilities	8	9	11
Current Assests	468	539	475	Current Liabilities	511	587	436
Fixed assets	123	127	515	Long term bank debts	-	-	295
Intangible assets	-	-	-	Other long term liabilities	16	9	126
Other non-current assets	-	-	-				
Total Non-current Assets	123	127	515	Total Non-current Liabilities	16	9	421
				Capital & Equity	63	70	133
Total Assets	591	666	991	Total Liabilities & Shareholders Equity	591	666	991

INCOME STATEMENT

Textile SRL acts like a trader of textile products-importer and distributor of textile products. Its Turnover is generated 100% in Total Sales by sale of goods purchased for resale, for the entire period revised. The turnover increased continuously over the period herein analyzed- increase by 14 % in EUR terms in 2009 versus 2008 and by 35% in EUR annualized terms as of May 2010 compared to Dec 2009. As per the company's disclosure, they expect an app 38% increase in RON terms in sales for the end of 2010 compared to 2009. In line with the company's business, the company's main costs included in COGS are:

- **Goods for resale** - consisting of fabrics, curtains, cotton and polyester yarns imported from Greece and distributed on the local market. In line with the sales increase, the cost of sales trade increased by 12% in 2009/2008 and by 35% as of May 2010 compared to Dec 2009. During the period revised , the cost of sales trade hold 88-90% in Total Sales .
- **Labor costs** –maintained to 4%-6% in Total Sales for the entire period. Labor Costs increased by app 23% in EUR terms as of May 2010 compared to Dec 09 while the number of employees remained at the same level, 8 employees during 2008-2010.

Operating expenses maintained to 5-6% for all the period revised. As of May 2010, operating expenses mainly consists of:

- **Transport of goods** – maintained to 8% of total operating expenses for the entire period analyzed,

except May 2010, when it holds 18% of operating expenses in RON terms.

- **Postage and telecommunication** – decreased continually from 29% in RON terms as of Dec 2008 to 15% as of May 2010.
- **Bank commissions and similar charges** – 43% as of May 2010, are the main weight in the operating expenses for the entire period revised.

Due to sales increase in 2009 compared to 2008, the company recovered in 2009 and overcome the operating loss registered in 2008 of app 3% in 2008 sales. Although operating profit increased by 62 % in EUR terms in 2009 compared to 2008 and y 17% as of May 2010 compared to Dec 2009, its weight in total sales remained at the same level, respectively 1% in Sales as of Dec 2009 and May 2010.

GAMMA SRL recorded a good performance in terms of net profit. Thus, the company recovered the net loss registered in 2008 (app EUR 33,000 -5% in sales) and increased its net profit in terms of volume and weight in sales for 2009 (app. 2,000 –less than 1% in Sales) and May 2010 (app EUR 13,000 -3% in sales).

The company's good evolution in terms of sales and profits as of May 2010 can be explained by the favorable demand for the company's products on the local market. According to the company's statements, its activity it's not affected by seasonality.

BALANCE SHEET

The most significant increase in BS size can be observed in May 2010 compared to Dec 2009, when Total Assets increased by 49% in EUR terms, due to the investments performed by the company in fixed assets. In 2009/2008 BS size increased only by 13% in EUR terms.

Main items of the Assets side of the Balance Sheet (“BS”)

Having in view the company’ investments in fixed assets in 2010, Total Non-current Assets hold the main part in BS. Total Non-current Assets consist of fixed assets, increased their value app four times as of May 2010 compared to Dec 2008 and increase from 19 % in BS as of Dec 2008 to 52% in BS as of May 2010. For 2008 and 2009, the biggest weight in BS was held by the Current Assets, app 79-81% in Total Assets for both periods.

As of May 2010, **main fixed assets** of the company were as follows:

- **Land** (app EUR 313,000 – 32% in BS) hold the main weight in fixed assets. Its value increased considerably in 2010 compared to 2009 due to the investment done by the company in a 1,016 square meters land in April 2010.
- **Buildings** (app EUR 95000-10% in BS) – almost doubled its value as of May 2010 compared to Dec 06, due to an app EUR 45000 investment in Apr 2010

- **Vehicles** (app EUR 66000-7%) in Total Assets-maintained to 6-7% for the periods analyzed and increased by 54% in EUR terms as of May 2010 compared to Dec 2009. The company owns two cars, used in the personal interest of the employees and is subject of leasing contracts.

Total Current Assets decreased in terms of weight in Total Assets, from 81% in BS in 2009 to 48% in BS as of May 2010, in line with the increase of Net Fixed Assets in Total Assets. Also, Current Assets decreased in terms of EUR by 12% as of May 2010 versus 2009 compared to increase of 15% registered in 2009/2008.

Other Current Assets, hold the biggest weight in Current Assets and increased continually in terms of volume during the period revised, reaching 28% in Total Assets as of May 2010. Other receivables consists of advances to shareholders (app EUR 282,000 as of May 2009). These amounts were granted on a short –term contract with the maturity in Dec 2010.

Accounts receivables decreased both in terms of volume and weight in BS as of May 2010 compared to 2009 and 2008, from 33% in 2009 to 8% as of May 2010.

According to the sales generated, main clients for 2008, 2009 and Jan 2010 have been:

Client	Sales 2008		Sales 2009		Sales May 2010	
	Amount (EUR)	% in Total Sales	Amount (EUR)	% in Total Sales	Amount (EUR)	% in Total Sales
-Domestic clients						
MARATEX SRL	31,386	5%	301,814	42%	91,339	23%
MATEX SA	106,674	17%	160,323	22%	32,131	8%
PRODEXIM COM SRL	823	0%	105,939	15%	110,814	27%
CATY SRL	5,149	1%	25,137	4%	32,610	8%
NIL INDUSTRIAL SRL	38,314	6%	30,819	4%	33,911	8%
SIRETUL SA	132,169	21%	63,340	9%	43,428	11%
LEONARD SRL	-	-	13,149	2%	13,337	3%
JUSTINNE SRL	-	-	-	-	46,265	11%
LAURA SRL; IASI	65,844	10%	-	-	-	-
TRICOTAJE SRL	26,386	4%	-	-	-	-
TOTAL	406,744	65%	700,521	98%	403,834	100%

Main balances as of May 2010 were registered with the following clients :

Client	Balance as of May 09 (EUR)	% in Total clients balance May 09
CATY SRL	20,795	25%
JUSTINNE SRL	49,708	59%
MARATEX SRL	13,356	16%
Total	83,860	100%

The ageing breakdown of the outstanding client database as of May 2010 can be disclosed as follows:

Client	<30 days	30-60 days	>60 days
Amount (EUR)	-	83,860	-
% in Total suppliers balance	-	100%	-

According to the company's disclosure, the cash – in period is 30 days. As per our computations, the number of days of receivable decreased continually during the entire period revised, from 111 days as of Dec 2008 to 57 days as of May 2010, in line with the company's statements.

Inventories (6% in BS as of May 2010), consist of merchandise sold entirely on domestic market: polyester yarn, cotton yarn, curtains and fabrics. The stock is not insured and imports are made on firm orders from the clients.

The ageing breakdown of the outstanding inventories balances as of May 2010:

Inventories	< 30 days	30-60 days	60-90 days	90-180 days	>180 days
Amount (EUR)	-	-	-	59,718	-
% in Total inventories balance	-	-	-	100%	-

As our the company's statement, the stocking period is between 90-180 days. As per our computation, the average number of days of inventories decreased from 47 days in 2008 to only 23 days as of May 2010.

Accounts payable represent 33% of Total BS as of May 2010, decreasing from 61% in BS in 2008 and 2009.

Main items of the Liabilities side of the Balance Sheet ("BS")

According to the volume of the purchases, major suppliers for 2008, 2009 and Jan – May 2010 have been:

External suppliers	Country	Goods supplied	Purchases 2008		Purchases 2009		Purchases Jan-May 2010	
			Amount (EUR)	% in Total suppliers volume 2008	Amount (EUR)	% in Total suppliers volume 2009	Amount (EUR)	% in Total suppliers volume 2010
OLYMPUS	Greece	Polyester yarn	386,074	64%	315,325	49%	74,708	19%
YARNTTEX		Cotton yarn	140,763	23%	-	-	-	-
KARMA		Curtains	22,411	4%	-	-	-	-
POLYESTER FBR		Fabrics	30,835	5%	177,312	27%	97,027	25%
ADONYS TEXTIL		Curtains	-	-	93,610	14%	207,609	53%
DOGAN TEXTIL		Curtains	-	-	354	0%	5,022	1%
Total				580,084	95%	586,601	91%	384,365

The suppliers are paid 100% in USD currency through PO and L/Cs. As per the company's disclosures, for most of the suppliers the average payment terms are app 60 days, but OLYMPUS (95% in the supplier balance account as of May 2010) benefits from very favorable supplier credit. Thus, as per our computations, the number of days of payable is considerably higher than the average terms, reaching 145 days as of May 2010.

Debts to shareholders (10% in BS as of May 2010) consist of soundly creditors, namely contract loans between the company and the principal shareholder, Mr. Ion Dumitru. These loans amount app EUR 103,000 as of May 2010 and have the maturity between May –July

2010 but will be extended on long term period, and were used for the current activity.

Bank debts (app 37% in Total BS as of May 2010) are the main liabilities as of May 2010, increased during the period revised and were used for financing the company's fixed assets and working capital needs. Also the company has two leasing contracts. More updated information regarding bank exposures has already been presented in "Bank relations" Chapter.

Shareholder's Equity balance increased year by year, both in terms as value and weight – by 12% in EUR terms as of Dec 09 compared to Dec 08 and by 89% in EUR terms as of May 2010 compared to Dec 09. This is mainly due to re-evaluation reserves (increased app 7

times as of Jan – May 2010 compared to Dec-09) and to profit for the current year (increased by 6.5 times in EUR terms as of May 2010 versus 2009). Paid – in capital is app EUR 55,000 -6% in Total Assets as of May 2010. Shareholder's equity maintained to 11-13% in total BS for the entire period revised.

FINANCIAL RATIOS – All the below computed ratios are based on RON figures , except Growth Rates which are computed in EUR

RATIOS	FORMULAS	Dec 2008	Dec 2009	May 2010
LIQUIDITY	No of days	360	360	150
Current Ratio	CA/CL	91,5%	91,9%	109,0%
Quick Ratio	(CA-I)/CL	76,2%	81,8%	95,3%
Cash Ratio	C/CL	6,2%	2,4%	11,5%
Number of days of receivables	Average AR* $\frac{DAYS}{SALES}$ (A)	111	104	57
Number of days of inventory	Average I * $\frac{DAYS}{COGS}$ (B)	47	37	23
Number of days of payable	Average AP* $\frac{DAYS}{COGS}$ (C)	215	204	145
Net Cash Cycle	A+B-C	-57	-64	-65
Collection rate	$\frac{SALES-(A/R-VAT)}{SALES} \times 100$	0,75	0,76	0,84
ACIVITY				
Receivables Turnover	SALES/AR	3.3	3.4	4.9
Inventories turnover	COGS/I	7.7	11.9	6.4
Current asset turnover	SALES/CA	1.3	1.4	0.9
Net working capital Turnover	SALES/(CA-CL)	-14.4	-15,7	10.6
OPERATING EFFICIENCY RATIOS				
Tangible fixed assets turnover	SALES/FA	5.1	5.9	0.8
Total assets turnover	SALES/TA	1.1	1.1	0.4
Shareholders equity turnover	SALES/SE	9.8	10.6	3.1
FINANCIAL LEVERAGE				
Total liabilities / total assets	TL/TA	89.3%	89.4%	86.6%
Bank loans / equity	BL/SE	1.87	2.34	2,75
Interest coverage	EBIT/IE	-0.8	1.1	3.1
Debt service ratio	IE/EBIT	-1.31	0.9	0.32
Solvency ratio	SE/(SE+TL)	10,7%	10.6%	13.4
Total liabilities/ shareholders equity	TL/SE	9.4	9.5	7.4
OPERATION PROFITABILITY				
Gross profit margin	$\frac{SALES-OGS}{SALES}$	3.2%	6.2%	7.0%
Net profit margin	NI/SALES	-5.3%	0.2%	3.2%
Return on assets	NI/TA	-5.5%	0.3%	1.4%
Return on equity	NI/SE	-51.9%	2.5%	10.1%
GROWTH RATES				
Growth in gross sales (annualized)		n/a	14%	35%
Net profit growth rate (annualized)		n/a	105%	1781%
Total assets growth rate		n/a	13%	49%
Shareholders equity growth rate		n/a	12%	89%

The company's indebt ness is average; app 37% of total BS represents bank debts.

The company recorded significant growths in terms of sales and profit for all the period revised. Also total Assets and Shareholders Equity increased significantly.

CONCLUSION

Strength

- **Committed and experienced shareholders and management , actively involved in developing the business – both partners are involved** in company's management ever since the foundation of GAMMA SRL , that contributed to gaining valuable knowledge of the textile market that helped them in growing a healthy business under GAMMA SRL name.
- **Clean, low leveraged and good financial standing for the size of activity** – The company registered a good financial performance in H1 2010 in terms of sales , profit and profit margins
- **Good client and supplier relations**
- **Good market information about Mr. Ion Dumitru, main managing partner**
- **Strong assets : the company owns fix assets of over euro 500.000**

Weaknesses

- Currently , company is depending app 53% on a single supplier – **ADONYS GAMMA** Greece

Opportunities

- To start and develop a good partnership with a company that has a positive outlook for maintaining and growing a very prosperous business
- To develop the bank's SME portfolio

Threats

- Textile manufacturing sector (main clients of our credit customer) in Romania evolution and trend after Romanian adhesion to EU WU might.

The client complies with the Know your customer policy we would like to propose **SC GAMMA SRL** as eligible SME's client risk under the proposed limit structure, which caps the max total outstanding risk at **USD 130.000** with the a/m derogations.

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