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# Credit Analysis and Financial Modeling

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## Overview

This course will teach you how to model and analyse corporate credit risk, how to assess structural and documentation risk and to give an overview of dealing with NPLs

## Key Contents

- Types of lending and credit ratings
  - The lending markets
    - Bank lending and CDS
    - The bond markets: high grade and high yield
  - Credit ratings
    - Rating scales and definitions
    - Recovery ratings
    - Relevance of sovereign ratings
- Financial aspects of credit analysis (quantitative factors)
- Analysis of historic results
  - The profit and loss account; adjusting for exceptionals
  - The cashflow statement; re-organising the cashflow statement
  - Earnings vs. Cashflow
  - The balance sheet; liquidity and debt maturity profile
  - Off balance sheet liabilities
  - Adjustments for operating leases
  - The importance of forecasting and of cashflow versus assets
  - Ratios for credit analysis (leverage, liquidity, earnings and cash coverage, asset coverage, working capital, asset turnover)
  - Payback/debt servicing analysis
  - Assessing debt capacity for corporates
  - Accounting factors for credit analysis
- Business risk analysis (qualitative factors)
  - Sovereign
    - Sovereign credit ratings
    - Economy, currency and political risk analysis
  - Industry
    - Porter's five forces
    - Industry life cycle (growth)
    - Industry cyclicalities (earnings quality)
    - Leading indicators
    - Competition

- Pricing dynamics; Demand versus supply
  - Changing business environments
  - Regulation
  - Capital intensity and cost base
- Company specific
  - Management
  - Operating, capital and corporate finance strategies
  - Competitive advantages and cost position
  - Product/service offering, differentiation and pricing power
  - Diversification
  - Customer/supplier concentration
- Structural factors
  - Shareholder structure
  - Ownership and support
  - Structural and contractual subordination
  - Impact of structural issues on ratings
- Leverage analysis
  - The advantages and disadvantages of leverage: debt vs. equity
  - Suitability for leverage
  - Determinants of leverage
  - Impact of shareholder value considerations on credit quality
  - Corporate structure and double leverage
- Risk limitation techniques, covenants, documentation, distressed credit situations
  - Purpose and structure of debt facilities
  - Documentation
    - Overview of a loan agreement
    - Overview of high grade and high yield bond prospectuses
    - Reps and warranties, conditions precedent, negative pledge MAC clauses, events of default, cross-default, equity cures, etc.
  - Focus on covenants - financial and non-financial covenants
    - Covenant definitions (financial), including off-balance sheet liabilities
    - Covenant definitions (non-financial) - what makes for stronger or weaker covenants
- Pricing for bonds and loans
  - Recent trends in pricing
  - Determinants of pricing
  - Influence of sovereign spreads, VIX, etc.
- Impact of corporate finance transactions on credit quality; leveraged buyouts
  - Corporate finance transactions
    - Mergers, acquisitions, disposals, break-ups, demergers, LBOs, etc
  - Leveraged buyouts
    - Rationale to LBOs
    - Structuring an LBO
    - Quick method of assessing LBO returns
    - Assessing returns to equity and subordinated lenders
    - Modelling an LBO
- Distressed credits