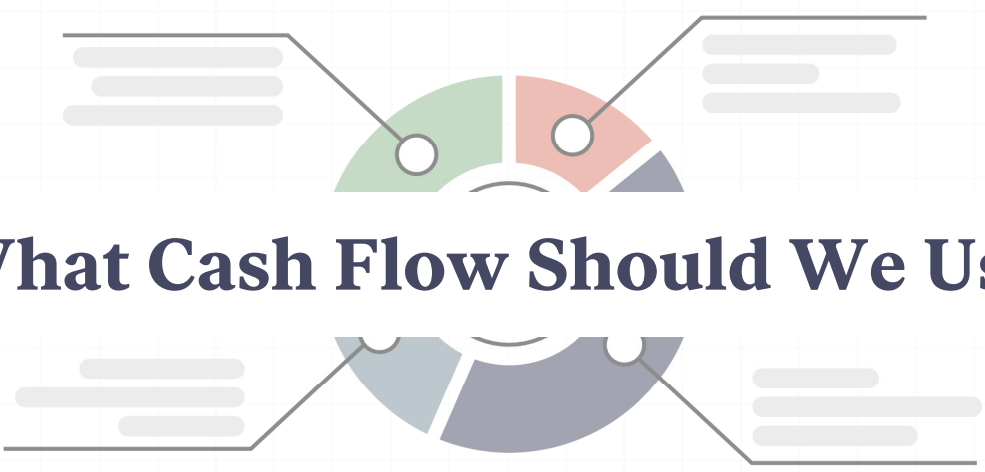




Ratios

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What Cash Flow Should We Use?

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Cash Flow Available for Debt Service



Cash Flow Available to Equity

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Cash Flow Available for Debt Service (CFADS)



(CFADS) = Operating cashflow, regardless of how the project is financed: use for project NPV & IRR



This is the cash flow generated by the project, which is used both to pay debt service¹ and to reward equity

✓ Cash from revenue & operating costs

✗ No interest

✗ No dividends

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Cash Flow Available for Debt Service



Cash Flow Available to Equity

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Cash Flow Available to Equity

Cash flow minus:

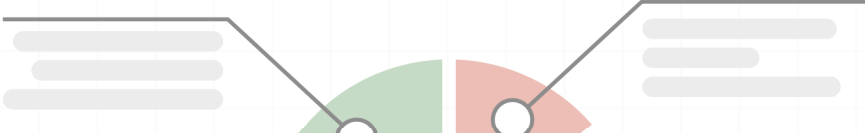
Expenses

Debt service

Tax

What is available to shareholders after prior commitments met

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Main Ratios – Debt Service Coverage Ratio (DSCR)

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Debt Service Coverage Ratio (DSCR)

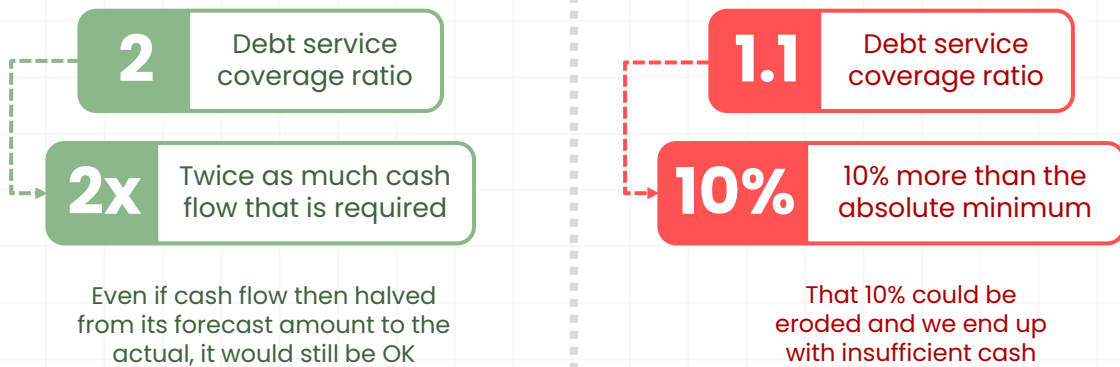
Cash flow available before debt service

Debt service (interest + fees + capital requirements)

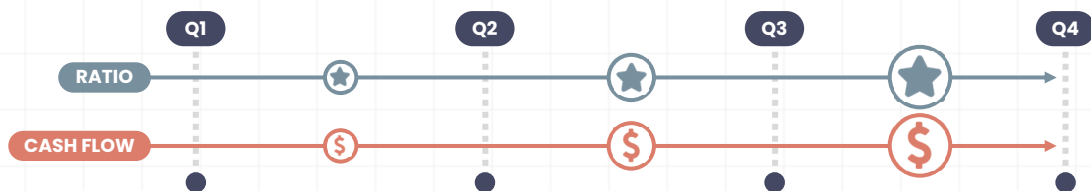
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How much cover the lender has to **ensure full repayment**

FINANCIALEDGE¹

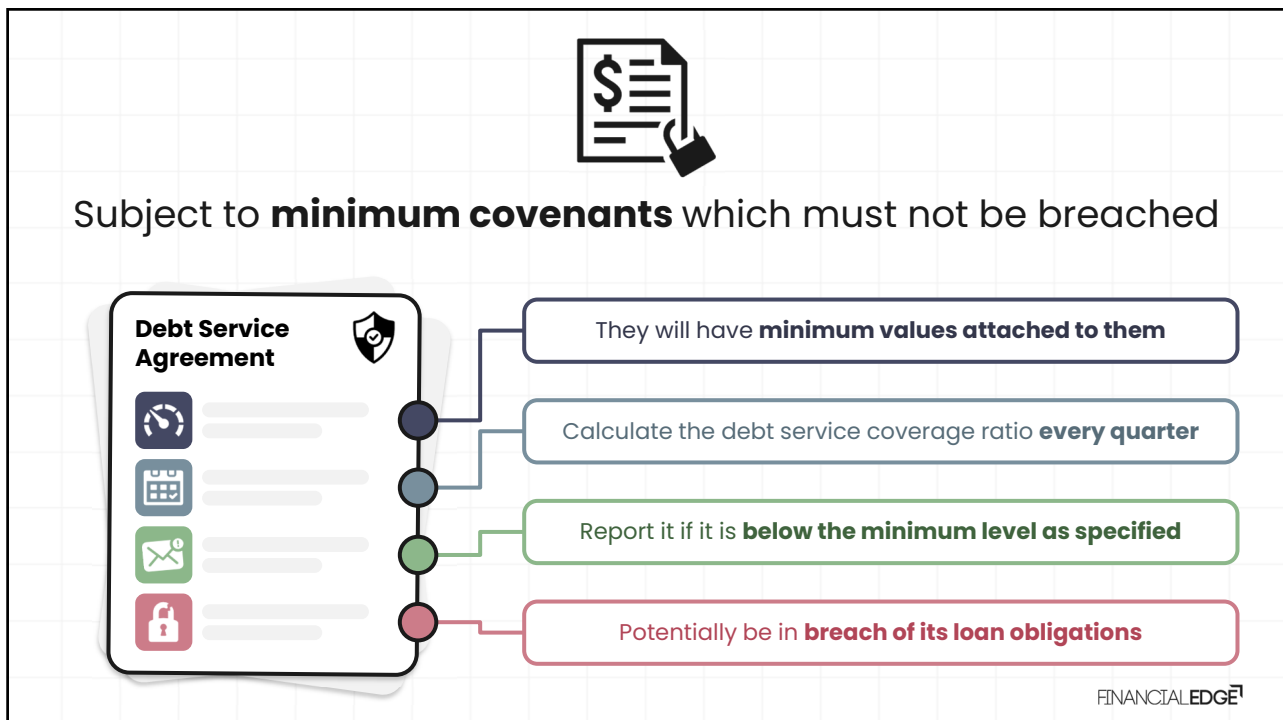
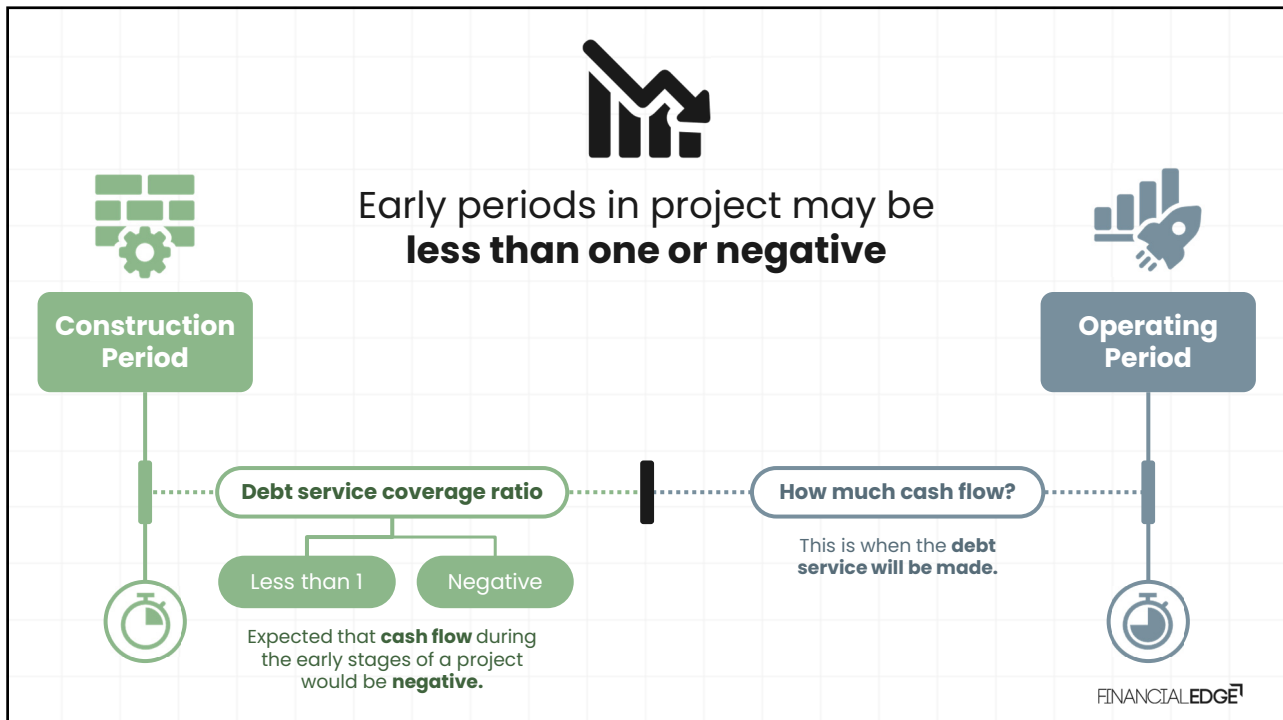
We calculate this ratio **period by period**

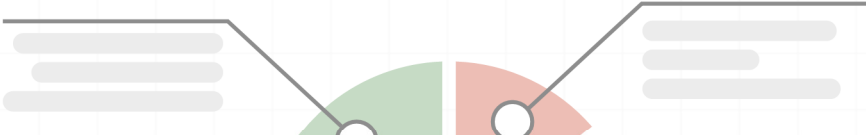


Cash flow rises usually with inflation

Debt service tends to **decline overtime**

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Main Ratios – Interest Cover Ratio

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Interest Cover Ratio

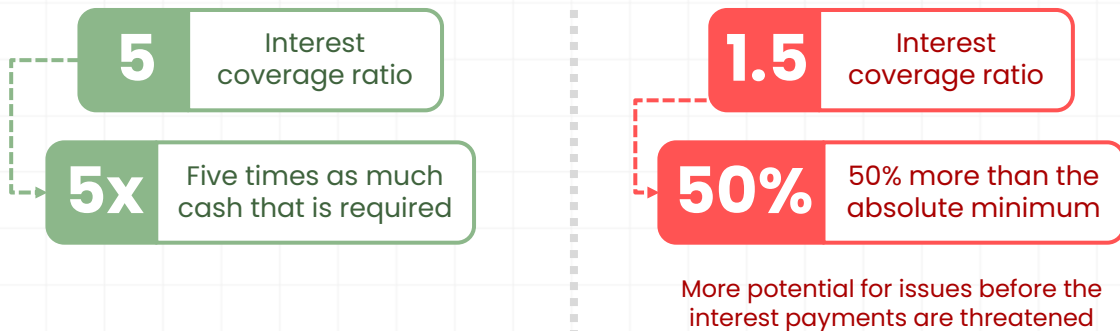
Cash flow available before debt service

Interest cost (cash basis)

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How much cover the lender has
to **ensure interest payments will be met**

FINANCIALEDGE⁷

Layer on top the **debt service cover ratio**
or the **principal payments**



Calculate this
period by period
in the model



It should get
bigger as the
project matures

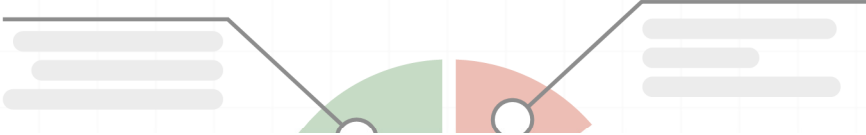


Cash flow will
go **up** and the
interest be
go **down**



Subject to
minimum
covenants which
must not
be breached

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Main Ratios – Loan Life Coverage Ratio

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Loan Life Coverage Ratio (LLCR)

Future cash flow available before debt service

Future debt service (interest + fees + capital repayments)

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Loan life coverage ratio will **iron out peaks and troughs** in the cash flow

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Construction Period


/ 0


Final Repayment

Use 'IFERROR' adjustment if debt service is at zero

= IFERROR Cash Flow / Debt Service, **DASH (-)** **BLANK**

Alphabetic, not numeric,
because we will do a minimum
across all the years

This will ignore pieces of text
and it will just look at the
numbers year by year

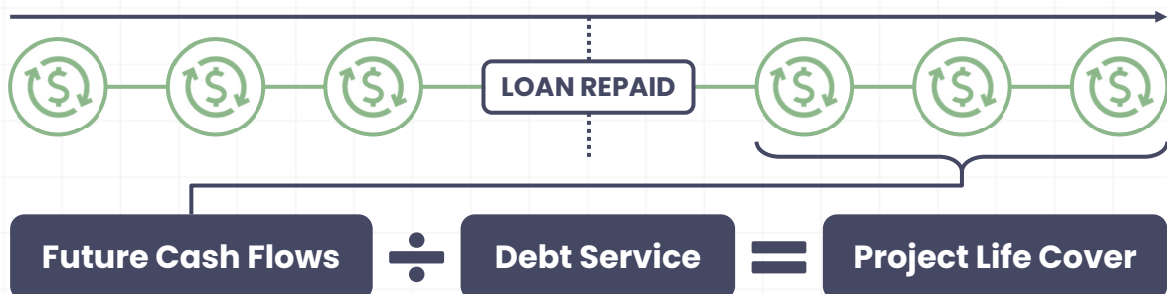
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Should we **discount the cash flows** for the first time?

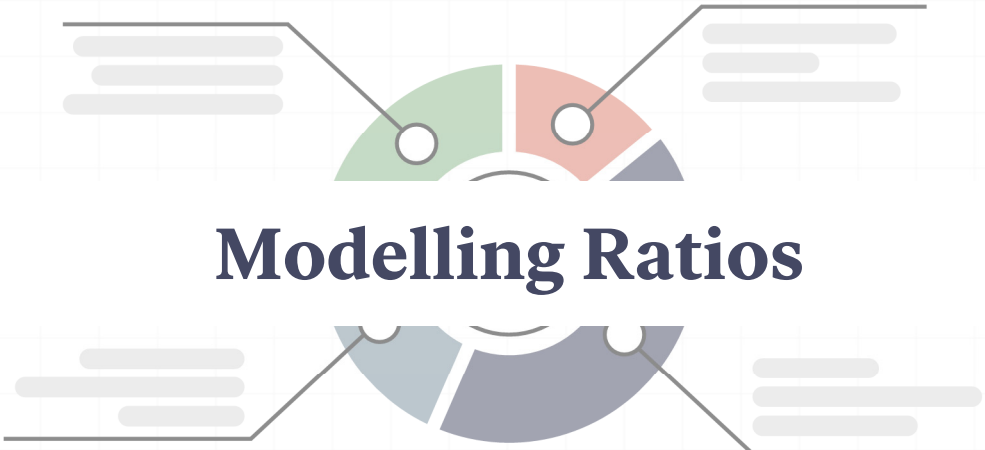
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What happens **beyond the end of the loan life?**



Stronger reason to **discount those cash flows** because they're **happening in the future**

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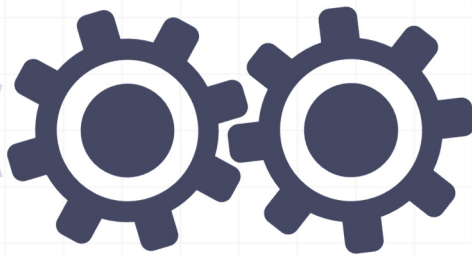


Modelling Ratios

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Assumptions

Inputs



Reporting

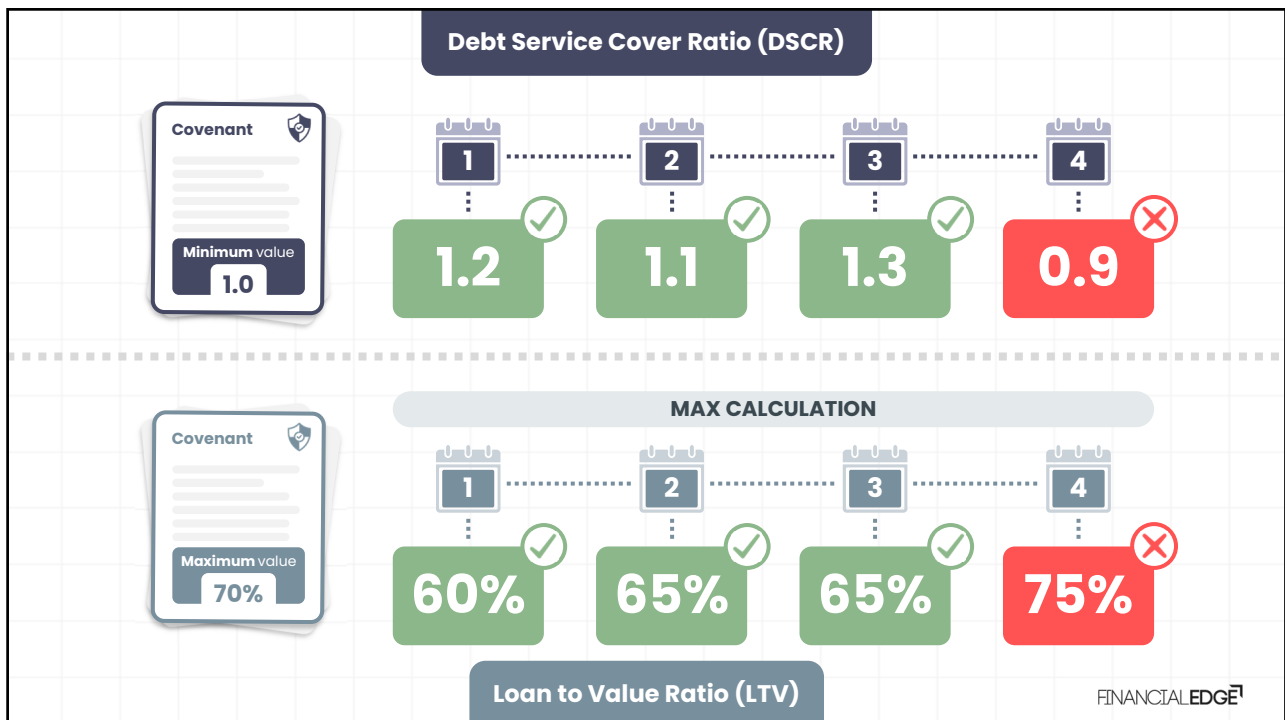
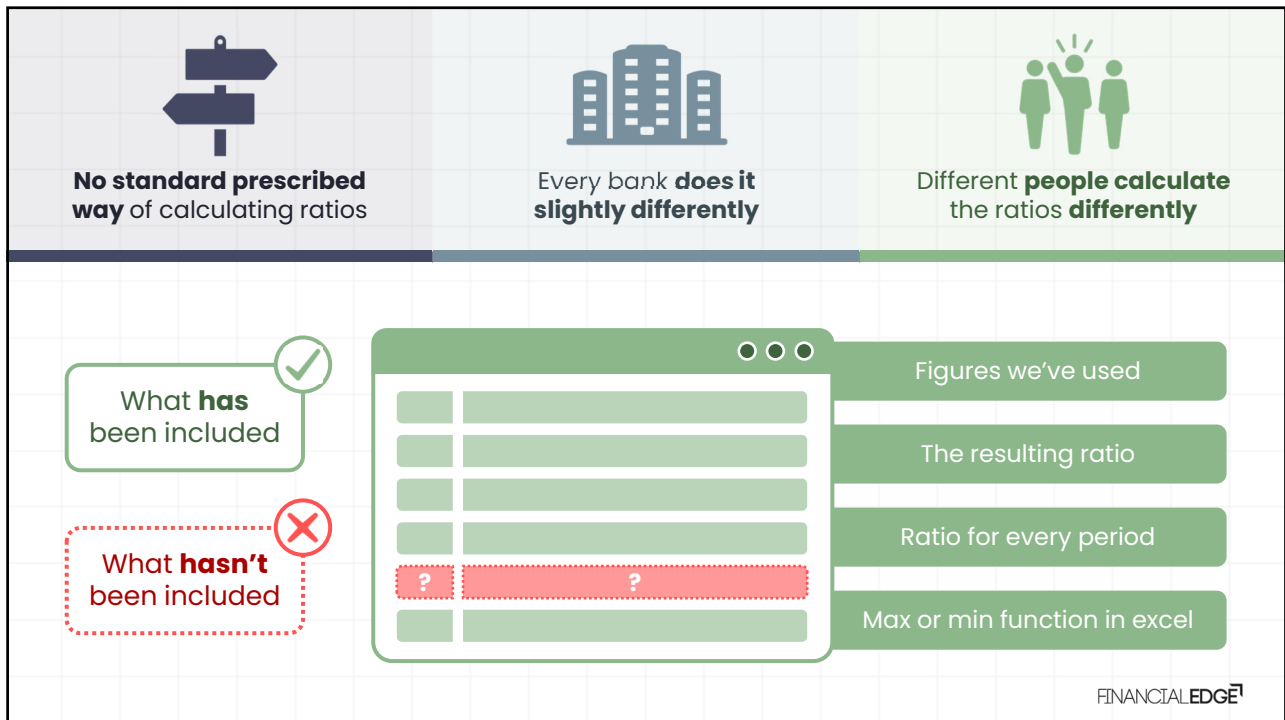
Used for
reporting to
the lenders

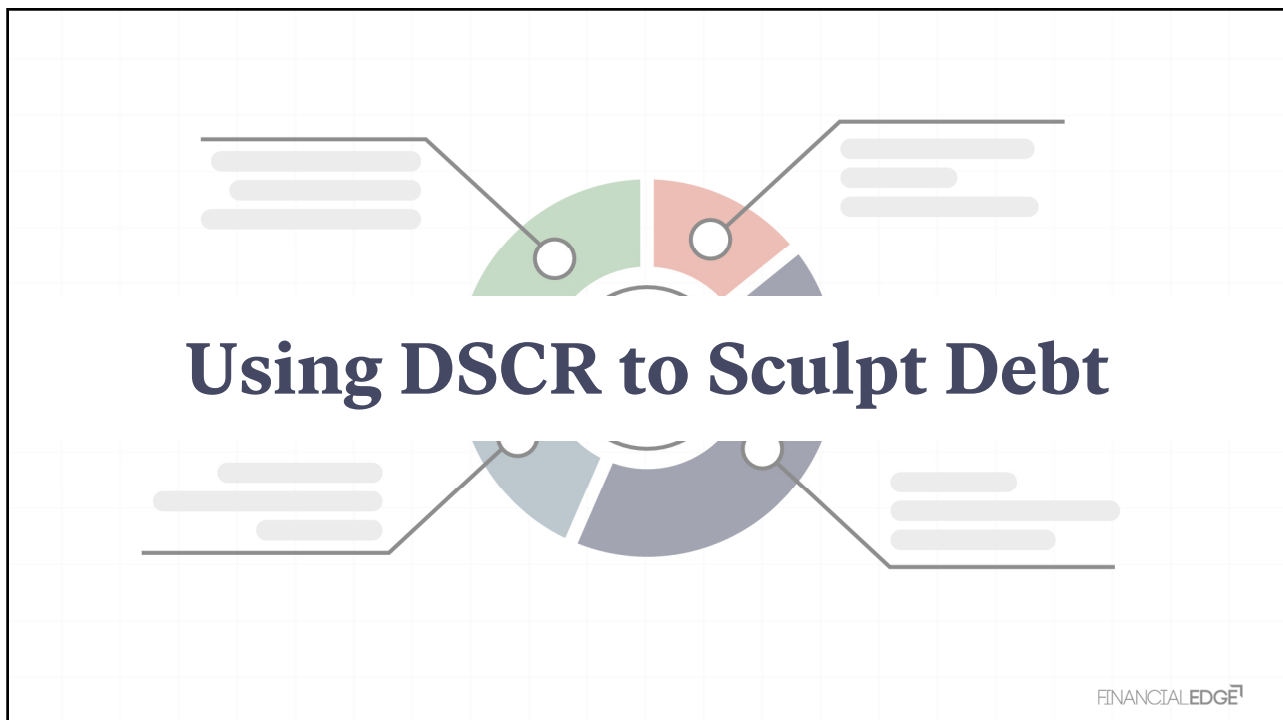
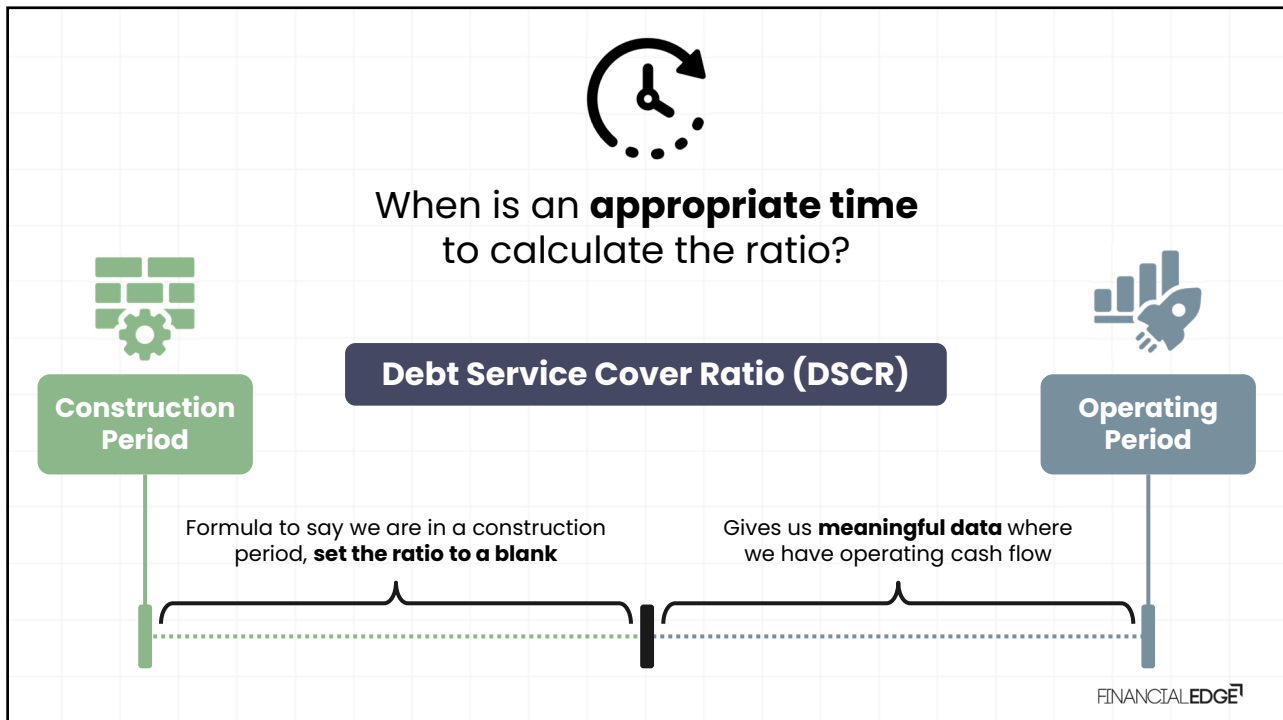


Controlling

Control their
lending position &
their credit risk

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Debt service cover ratios are often used to **calculate sculpted debt repayment profiles**

Debt Service Coverage Ratio

Cash flow



Expected debt service



DSCR



Test the ratio against a **minimum value**

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Cash flow

Minimum ratio

Maximum amount of
debt repayment



What the **debt capacity** of a project is based on its **cash flow**

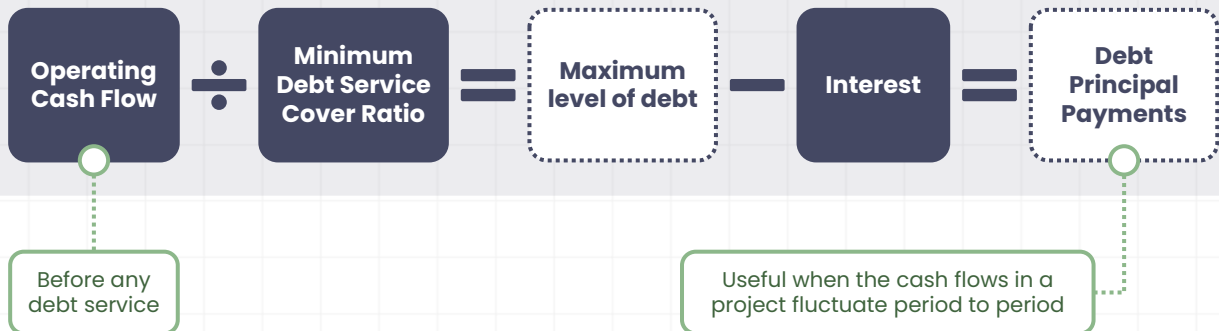
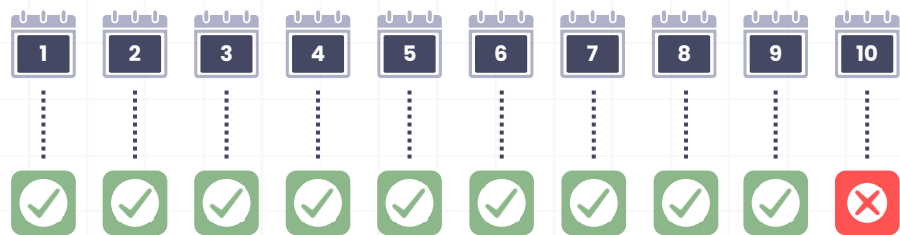


Sculpt repayments to go **up** or **down** depending on **cash flow**

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Stay within a **minimum debt service cover ratio**

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Breached the minimum debt service cover ratio



Sculpted Debt Repayment Profile

Always be at least at the **minimum debt service cover ratio level**

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