

CENTRAL BANK OF EGYPT
Egyptian Banking Institute



البنك المركزى المصرى
المعهد المصرفى المصرى

Early Warning Signals

for Distressed SMEs

Three Day Programme online live programme

In 2024, companies in Egypt continue to struggle with the aftermath of a devalued pound, rising inflation and high interest rates. Increased interest rates are putting further financial strain on SMEs in Egypt with the overall level of NPLs that remain high across the Egyptian SME sector. This training programme is therefore highly timely as is focused on those areas of corporate performance that corporate bankers can identify when monitoring their SME client companies in Egypt, as portents of financial difficulties and potential client default. By spotting signs of difficulty early, the banker can take corrective active, with client management in order to prevent default.

Aims and Objectives:

- This programme has been designed for relationship managers and banking executives working in SME corporate credit lending across Egypt. In meeting its overall objectives, the workshop will address the specific areas of the identification of early warning signals and its associated risks in order to identify potential problems with corporate clients before they materialize, in order to avoid default among client companies.
- During the programme, we will review financial Early Warning Signals as part of the course, within the SME client's markets including what can be considered as 'red flag' levels for those financial ratios, however the core emphasis of this programme will be on assessing and identifying defects and mistakes being made by client companies before they are translated into symptoms of decline, as expressed by the financial statements. External, strategic and management risk analyses will therefore be major areas of analysis.
- In addition to the identification of Early Warning Signals, the course will focus on remedies for SME problem loans that the banking team can seek to implement in order to avoid a further deterioration in the client company's position and to avoid eventual default. Debt restructuring and problem loan workout will however be the subject of a separate, online course.

Course objectives:

1. Provides Corporate bankers and Relationship Managers with a comprehensive overview of key Early Warning Signals that might indicate a company is beginning to experience financial distress.
2. In addition to a review of leading financial EWS we will focus on time leading signals arising from corporate actions, management strategy and behaviour and trends arising from the client's industry.
3. We shall also review external risk factors and what key risks might crystallise impacting on the company's ability to generate free cash flows.

Course Content:

- A full, holistic review of typical EWS across a range of industries
- Liquidity problems, their causes and impact on the SME client
- Assessing Operational, Business, Internal and Financial EWS in SMEs
- Reviewing a wide range of the IFC classification of different types of EWS
- Key financial EWS and ratio analysis that can help us identify failure
- The need to identify Defects and Mistakes and not simply relying on the assessment of the historic financial statements for EWS detection
- Assessing the different stages of crisis that the SME can face on the road to default
- The danger of the liquidity crisis and the EWS of potential SME liquidity problems
- EWS of poor working capital management and overtrading in SMEs
- Review of the most common symptoms of failure
- The application of univariate and Z score analysis to client monitoring

- Leading EWS and indicators of financial distress include external risk analysis
- The application of PESTEL & Market analysis to identify potential EWS in SMEs
- Spotting EWS in Management Behaviour and its central role as a leading EWS
- The importance of identifying EWS from the wider business and industrial environment
- A full discussion regarding preliminary corrective action that can be taken once EWS are identified and how the RM should engage with the client.

Methodology:

This virtual training is designed for SME Corporate Bankers, SME relationship managers and credit risk officers seeking to identify the early signs of distress in client companies so that they can engage with SME management to take corrective action and avoid default. The course will be delivered through a highly interactive online platform through which the delegates will be able to fully engage with the trainer.

Delegates will work through Egyptian based case study exercises and questions in project groups and with the course trainer. Thanks to the online platform we will be able to separate the delegates into virtual breakout rooms which will allow the delegates to work together in small project teams and which also allows the course trainer to visit these breakdowns via the platform, to deal with any questions that the delegates may have.

The learning techniques will be a mixture of formal presentations, written materials, assignments and case studies with a heavy emphasis on learning through analysing practical examples of corporate loan candidates across Egypt. All the case studies will be used from real-life working examples and can include client companies of the bank, particularly non-performing loans if that is required. Sharing already developed knowledge and learning to work closely in solving practical issues, is a core to the learning methodology of this programme.

Timing

The programme will be delivered between the following hours, Cairo time over the three days of the course:

Session 1: 09.00 – 10.45

Session 2: 11.15 – 12.30

Session 3: 13.30 – 15.00

Target Audience:

This course has been designed for SME Corporate Bankers, SME Relationship Managers and Corporate Credit officers who are responsible for analysing and lending to SME client companies in Egypt. It is also particularly useful for bankers involved in the monitoring and reporting of the Bank's SME corporate clients as well as for Corporate Credit Risk managers.

Course Outline:

Day One

Introduction to Early Warning Signs and Risk Management

Session 1 – The importance of early warning signals and fundamentals in credit risk management

- Review of the fundamentals of credit risk analysis.
- The function of Early Warning Signals and the importance of constant monitoring.
- Review of the implications of a default client.
- Prevention is better than cure.
- The importance of using early warnings signs in risk analysis for SMEs.
- Discussion regarding the different courses of action available to the banker during a default scenario.
- The importance external risk analysis and its implication for credit risk for the SME.
- Identifying the effects of risk crystallization on the company's ability to generate cash flows.
- The importance of Debt Service Coverage Ratio as the prime financial EWS.
- The importance of identifying risks that affect the DSCR.

- Review of the different stages of corporates in crisis.
- The importance of reacting quickly, to prevent events deteriorating.
- Review of the key red flags that can be used as EWS in SMEs.

Session 2: EWS workshop

Case Study – Delegates will be separated into team work groups and will review an SME case study question of a trading company based in Alexandria. The financial information provided will be intentionally light so that the delegates can identify the key EWS and try to assess the principal internal and external risks facing the company. At the end of the session, one of the delegate teams will be required to present their conclusions to the rest of the group.

Session 3 – Early Warning Signals and Risk Management

- The importance of ongoing risk management in monitoring for EWS particularly in SMEs
- Enterprise Risk Management in corporates and it can deal with risk crystallization events
- Introduction to an international risk management model for credit risk analysis for SMEs
- Risk identification in the Bank's markets of operation
- Risk profiling
- Risk mitigation through different strategies
 - The use of the TARA model;
- Implementation of risk strategies as part of the loan process and dealing with company stakeholders.

Case Study – Delegates will be separated into team work groups and will review a Egyptian SME case study question of a Central Asian company. The delegates will be required to identify the EWS and use the international risk management table introduced during the session, to identify, assess and mitigate the risk and EWS arising from the case.

Day Two

Session 4 – Overtrading, Liquidity and Working capital management in the distressed client

- The importance of good working capital management especially during the current economic crisis for SMEs.
- Why SMEs in Egypt and particularly prone to liquidity problems.
- How to spot when the company is burning cash unconsciously.
- Measure to identify potential problems with short term liquidity.
- Why the liquidity crisis can and will kill the SME going concern.
- The impact of poor working capital management on company liquidity and survival.
- Signs of overtrading and over aggressive management pricing policy.
- The importance of due diligence and understanding how management negotiates with its customers and suppliers and manages working capital.
- Calculating the net working capital needs of the company.
- Methods in improving working capital generation.
- The importance of liquidity in distressed corporates.
- Managing and improving liquidity during the current COVID pandemic; how SME managers should be controlling liquidity.
- Methods in improving corporate liquidity and cash flow through improved working capital management.
- Methods implemented by turnaround managers to increase liquidity in companies.
- Credit risk, business risk, operating risk, management risk in SMEs.
- Risk identification in developing markets.
- Risk profiling to identify the top risks that can affect the company.

- Risk mitigation through different strategies.

Case Study: during this session, the delegates will analyse the working capital needs of a company and assess how working capital problems can threaten the going concern of the SME operating in Egypt. They will also assess how the corporate can increase its liquidity through intelligent working capital management. We will draw comparisons with the demise of Carillion and understand why poor working capital management was central to the demise of the UK contractor.

Session 5: Early Warning Signals workshop

Case Study – The delegates will review a client company in the manufacturing sector and assess the EWS that arise from the case scenario. Using the international risk management framework introduced above the delegates will provide risk mitigation solutions to the risks identified during the credit analysis. Delegates will draft their respective risk management framework on their laptops and individuals will share their screens with the rest of the online group, for further discussion.

Session 6- “Leading” Financial Indicators – Using quantitative analysis and ratio analysis as early warning signals.

- Reviewing a company’s Balance Sheet, Profit and Loss Statement and Cash Flow Statements;
- Identifying company strengths and weaknesses in the SME company accounts;
- Key questions to ask when identifying risks;
- Trend analysis and the importance of identifying the trend from the financial data;
- Limitations in relying exclusively on company accounts and the importance of identifying the issues in the detail;
- The limitations of financial reporting and how to read the financial and business ‘picture’ without reliably audited IFRS accounts.
- Techniques in dealing with regional management and private / family run businesses.
- The use of ratio analysis in credit analysis and as a tool to identify credit risk;
 - Introduction and development of different ratios to use to assess, financial risk, liquidity and the company’s ability to borrow;
 - Importance and application of the Interest cover and DSCR ratios in credit analysis.
- Reviewing acceptable ratio levels in different industries.
- The importance of trend analysis as part of ratio analysis.
- Spotting off balance sheet items that will affect company risk profiles;
- Spotting ongoing capital expenditure needs and identifying methods of financing;
- Identifying potential corporate failure.
 - The use of Z scores and A scores are early warning signals.

EWS Workshop

Case study: Analysing a case study company to undertake a quantitative analysis of a major listed company, identifying potential areas of company weakness and credit risk. The delegates will present the ratios and other early warning signals they will use to monitor the client going forward.

Day Three

Session 7 – “Leading” External Indicators – Risks mitigated through Qualitative analysis

- Macro-Economic Factors.
 - GDP growth, external economic shocks.
- Changes in Government Budgets and Infrastructure Spending Plans and how they can affect SME client companies.
- Demographic and social factors that affect market demand.
- Applying the PESTEL Model to identifying risk factors in corporates.

- Analyzing competitive EWS including the application of Porter's five forces model and its application to market conditions to identify competitive EWS.
- The importance of continuous market research in identifying warning signs.
- Strategic risks and EWS in strategic development.
- The importance of focused strategic development.
- Porter's generic strategies and their identification.
- The importance of the 'going concern' of the client.
 - Product portfolio analysis.
 - Boston Consulting Group matrix.
 - Product life cycle.
 - The industry life cycle.

Case Study – During this session the candidates will review an SME based company in the energy sector and applying the models covered during this session, they will identify the external risks and EWS that could impact on the company's ability to generate cash flow.

Session 8 – EWS in Management, management risk and governance issues

- The importance of management due diligence in credit risk analysis and risk monitoring for SMEs.
- Why the overconcentration of power frequently poses management risks in SMEs.
- Why a company only follows the lead of management and the importance of management risk.
- Applied methods of management due diligence.
- Reasons why management fail.
- Classic EWS from SME management.
- The power and limitations of the bank's effects on management.
- The importance of good governance in business and how the principles of governance should also be reflected in the SME.
- Examples of poor governance and their impact on company performance.

Session 9 – Applied Management due diligence workshop

Workshop – The delegates will review the management and governance aspects of an Egyptian family run business in the retail sector. We will also separate into project teams and undertake management due diligence. Groups will role play the management due diligence process with one set of groups playing the role of interviewer and the other, the management of the company.

Course conclusion and evaluation

Course Language:

English

Trainer's Biography:

Juan Gamecho - Finance Trainer & Banking Consultant

Juan is a British professional banking and finance trainer who since 2003 has been training banking students in finance, credit analysis, debt restructuring and loan workout, as well as in SME Business diagnostics and development. He has been providing training programmes in Corporate Credit Risk Analysis, Cash Flow forecasting and debt structuring, Early Warning Signals and Debt Restructuring to some of the world's largest banks and financial institutions and has been working in Egypt and the MENA region since 2010. Following graduation from Business School in Economics and Finance in the United Kingdom in 1991, Juan joined the Government of Slovakia as an Economic and Political Adviser to the Slovak Prime Minister.

In parallel Juan also provides financial and strategic advice to small and medium sized enterprises in their financial and business development as well as in the restructuring of their financial debts. Juan has a wide range of different sector expertise including general manufacturing, steel and aluminium process production, food & beverage industries, including food processing companies, soft drinks manufacturers and breweries as well as transportation, shipping & aircraft finance.

Juan's banking and finance career started in 1993 in the City of London with Hill Samuel Bank. In addition to training, since 2003 Juan's company has specialised in debt restructuring, finance raising, credit analysis and corporate finance services across a number of emerging economies in South Eastern Europe and the MENA region. In 2006, Juan's financial advisory company Limited became the exclusive representatives of HSBC Investment Bank in Romania.

Juan's company JBS Training & Consulting has been partnering with the EBI for over then years in delivering a wide range of courses to all the main banks in Egypt. His technical banking and finance training subjects including the following:

- Financial statement analysis for Corporate Bankers.
- Corporate Credit risk analysis from introduction to senior level.
- Liquidity and working capital analysis and management (SME bankers and large corporates).
- Cash flow analysis and forecasting for debt structuring.
- SME Credit Risk Analysis.
- Debt structuring and debt enhancement.
- Early warning signal identification for corporate bankers.
- Problem loan workout and debt restructuring (SMEs and Large Corporates).
- Debt restructuring for lawyers.
- Corporate Finance training.
- Company valuations.
- Investment analysis.
- Credit and investment writing Skills.
- Credit and investment presentation skills.

HOTLINE
15200
One number to better serve you!

Headquarters – Nasr City

22 A, Dr. Anwar El Mofty St., Tiba 2000
P.O.Box 8164 Nasr City, Cairo, Egypt
Tel.: (+2) 02 24054472
Fax: (+2) 02 24054471

Working hours: 9:00 am - 5:00 pm
www.ebi.gov.eg



Like us on

facebook.com/EgyptianBankingInstitute



Follow us on

twitter.com/EBItweets



Join us on

linkedin.com/company/egyptian-banking-institute



Watch us on

YouTube Channel: Egyptian Banking Institute (EBI)