Seeking cash flow improvement?

Get asset financing

INVESTMENT BANK

Often, business growth is restrained by cash flow challenges. Do you know that asset financing is one of the easiest and cheapest ways of improving cash flow position? Get to understand asset financing; it could unlock the cash flow you have been seeking for unlocking your business growth.

What really is asset financing?

Asset financing typically refers to the use of credit facilities to fund the acquisition of business assets. It is a type of business finance that enables you to confidently acquire the business assets you need to grow and operate both efficiently and effectively in your business, by spreading the cost of purchase over time. You obtain a loan from a lender to purchase assets such as equipment, machinery and vehicles and enjoy the use of the assets in return of agreed repayments spread throughout the term of the financing. The financed asset typically remains property of the lender until the facility is fully repaid and all facility conditions are met.

Asset financing also includes the use of credit facilities to refinance existing assets on a company's balance sheet. That is, a company borrows funds from a lender in order to release cash that may be tied up in assets already owned, including short-term investments, inventory, accounts receivables, machinery, buildings, or even warehouses. The funds are usually used for short-term funding needs, such as cash to pay employee wages or to purchase raw materials for production. In this way the company is not purchasing a new asset but using its already owned assets to make up a working cash flow shortfall or take advantage of cheaper cost of borrowing. The asset is simply pledged as collateral for the loan.

What makes companies seek asset financing?

The most common reason for accessing asset financing for businesses is to improve cash flow. Imagine a company that needs to buy new machinery in order to increase their production. If that company can afford to pay for the equipment and actually decides to do so, this would have a negative impact on their cash flow. The low cash flow could actually affect other expenses such as purchasing inventory, paying staff, rent, etc. That is why most big companies prefer to go for asset finance instead.

Another reason why companies access asset finance is to raise cheap cash flow quickly. Sometimes companies need to raise cash flow quickly for various purposes, such as replenishing inventory to meet increasing demand from their customers. In such situations, asset financing process is usually easier and less costly than most other lending options. Take for example a business loan. When a company applies for a business loan, lenders weigh numerous factors about the business before offering the loan. Sometimes the whole process takes quite a bit of time. Asset financing, on the other hand, is a lot easier and faster to process since actual assets are pledged as collateral. Upcoming businesses are more suited to asset financing for this reason.

What types of asset finance are there?

There are different types of asset financing, including the following:

Asset refinancing: This is where assets are used as collateral to secure a loan from a lender. It is commonly used when businesses need to raise working cash flow quickly for activities such as purchasing inventory or when the business seeks to take advantage of cheaper cost of borrowing. It is also popular for debt consolidation. Consolidating debt refers to the process of combining multiple debts into a single cheaper payment.

Equipment leasing: Here, a company rents equipment to use for its business on a lease from a lender for a specified period. Payments are then made periodically as agreed and the equipment is owned by the lessor throughout the lease period.

Operating lease: This is also called contract hire. It is very similar to equipment leasing except that the lease period is shorter and responsibility for maintenance lies with the lessor. It is best for a company that simply needs to fill a gap in, say, production, but only for a short period. Operating leases are cheaper because the lessee does not pay the full value of the asset.

Hire purchase: The lender buys the item on behalf of the company seeking asset finance and is repaid over a longer period of time in installments. Companies opt for this type of financing when they need to purchase critical assets for the business but would rather spread out payments so that the cash flow does not take too much of a hit from the purchase. Ownership is guarantee after payment is completed.

Financial lease: Also called a capital lease, this has elements of a hire purchase and equipment leasing. It is similar to a hire purchase plan because the asset is capitalized on the balance sheet both as an asset and liability; and it is similar to an equipment lease because rent is listed on the Profit/Loss account. However, unlike a hire purchase plan, the rent paid over time in a financial lease is the same as the asset's value and the lessee has to return the asset to the lessor after the lease period elapses. A company may choose such an arrangement mainly for tax benefits.

CDH Investment Bank's offering

CDH Investment Bank Limited (CDHIB) takes on the leg of a lender in case of asset refinancing and hire purchase plan. In case of leases, CDHIB works with either or both the lessor and the lessee to structure a workable financing facility.

When you come to CDHIB we will work with you to determine the financing method that would be appropriate for your unique situations and needs. We have previously provided finance for assets such as machinery, construction equipment, farm equipment, inventory, vehicles and other movable assets.

Our asset finance facility runs for a maximum period of 60 months and provides different repayment options. We are flexible and affordable. We are about adding value to your company and helping your business grow!!