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# Finance Management

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Case Study Book

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# 1

## Case Study

# Fiscal Clarity, Penalty Avoidance & a Strong Banking Relationship Development in Serra Company

Serra Company, a new, fast growing food distribution company was experiencing a cent percent revenue upsurge in its third year of operation. In less than one and half year, their borrowing facility increased four times, leading to financial compromises for the first time. Although company revenues were intensely speedy, they were experiencing less than expected cash flow. This led to the borrowing of finance and making their ability vulnerable to abide with borrowing base calculations, which resulted in potential penalties and threatening their banking relationship.

Looking at this scenario, Serra Company created a customized cash flow forecasting and budgeting model which encompassed a formal borrowing base calculations. By doing this, the company got a very good clarity and insight into cash inflows and outflows, and hence, the solution to better manage working capital. Serra Company also developed a plan with specific goals like inventory reduction, accounts payable growth and accounts receivable reduction. Along with defining strategic financial goals, the plan defined specific approach for achieving these fiscal targets.

The company worked upon all these action items, and just within five to seven weeks, they experienced a lessening of working capital. They also regained their strong relationship with bank, by avoiding any late monetary transactions, and thus, having no penalties from the bank. Increased cash flow decreased their level of debt, which resulted in less interest amount for the company. Additionally, the company improved its credit profile, and was in position to finance their rising growth with their existing debt. Conclusively, the vision gained into cash flow drivers like variable and fixed expenditures, which enabled the company to better understand the financial consequences of some operational matters, and to bolster their capability to make sound decisions moving forward.

Source: [www.pennvalleygroup.com/.../financial-management-services-case-study](http://www.pennvalleygroup.com/.../financial-management-services-case-study)

## Questions

1. What was the problem faced by Serra Company?

**(Hint:** The Company faced an increase in its borrowing facility.)

2. What solution was made by Serra Company for the problem it experienced?

**(Hint:** The Company built cash flow forecasting and budgeting model.)