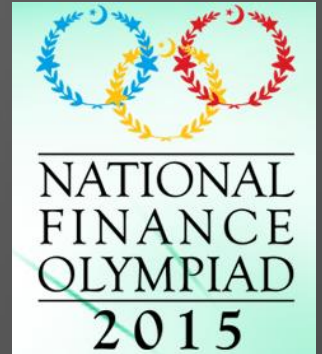




The Institute of
Chartered Accountants
of Pakistan

CA
PAKISTAN



Long Term Business Financing Strategy for a Pakistan Business



Pakistan State Oil

**Pakistan State Oil
Company Limited**

August 6, 2015



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Financing Strategy

Objective of a Financing Strategy for any business is to ensure that sufficient finance is available at right time from the most appropriate source at the most economical cost

Components of Financing Strategy

- Determining the capital need of an organization
- Determining the various financing modes available
- Selecting the best financing mode
- Achieving the right mix of finance to have the optimal weighted average cost of capital (WACC)
- Monitoring and reviewing effective utilization of finance



Financing Needs of a Business

- To start a new Business
- Expansion of the current Business
- Development of a new product
- Entering into a new market
- Working Capital requirement of the Business



Choosing the Right Source of Finance

- Amount of Capital required
- Purpose of the Capital requirement
- How quickly the Capital is required
- Time period for which the Finance is required
- Amount of Risk involved with the purpose for which Capital is required
- The most economical option available

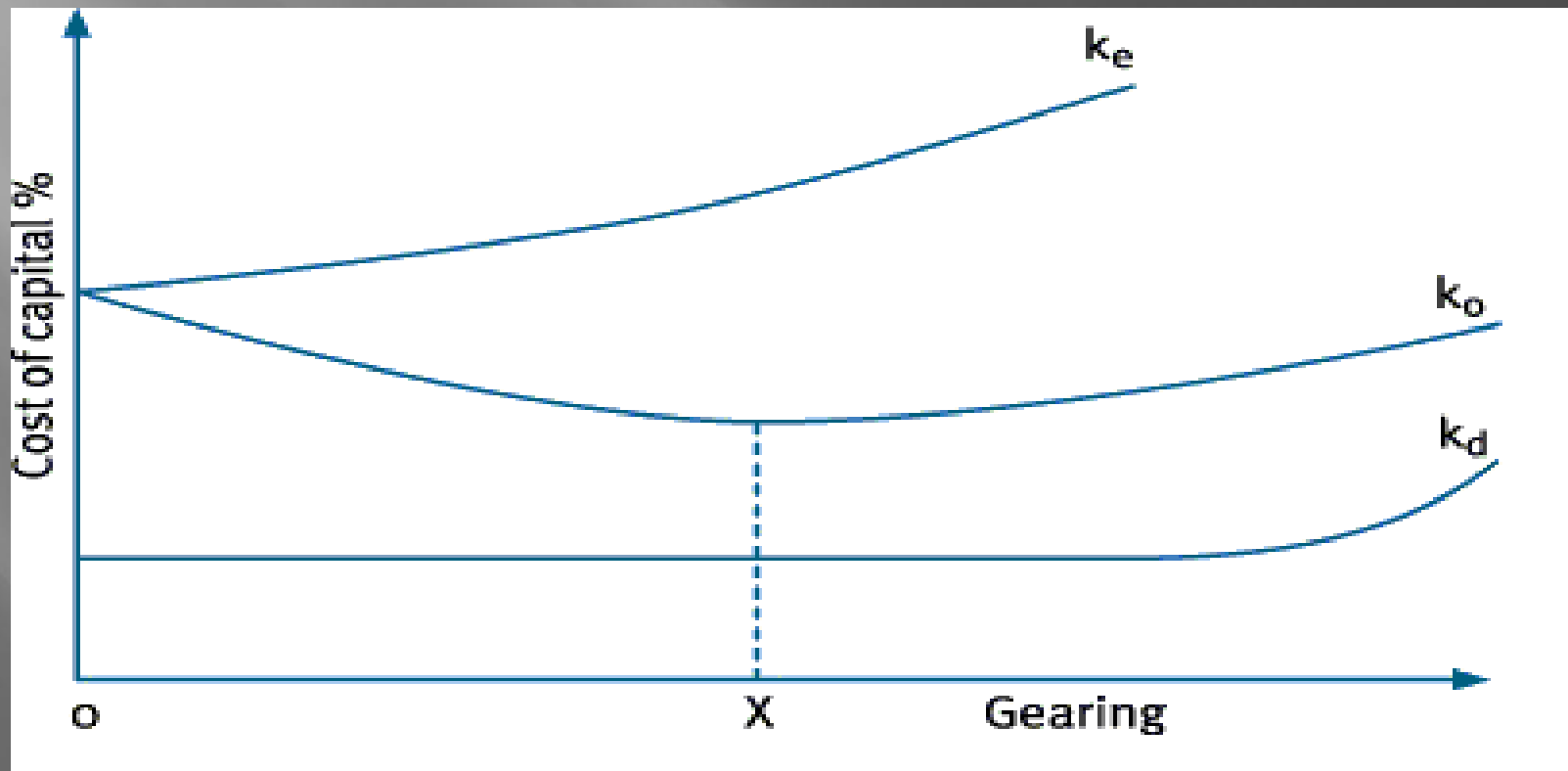


Sources of Finance

Source of Finance	Nature	Duration	Risk	Cost	Flexibility	Tax Benefit
Running Finance	Debt	Short Term	Medium	Medium	High	Yes
Trade Credit	Debt	Short Term	Medium	Low	Medium	Yes
Borrowing from Banks & Other Financial Institute	Debt	Medium – Long Term	High	Low	Low	Yes
Issue of Debenture	Debt	Medium – Long Term	High	Low	Low	Yes
Convertible Bonds	Debt / Equity	Medium – Long Term	Medium	Medium	Medium	Yes
Undistributed Earnings	Equity	Medium – Long Term	Low	Low	High	No
Issue of Shares	Equity	Long Term	Low	High	Medium	No

Right Mix of Finance

- Debt Financing is a low cost option and is suitable for projects having higher level of certainty
- Equity financing has high cost and is more viable to finance for projects with high level of uncertainty
- We need to ensure the right mix of debt & equity while considering risk attached to the proposed project





Challenges faced by Pakistan Economy

- Political Instability and Lack of continuity in policies
- Pakistan is facing fiscal deficit
- Higher dependence on Oil imports and on going Energy Crisis
- Pakistan has a more consumption induced economy with less savings
- Law & Order Situation
- Crisis of Governance and Implementation Weaknesses

Long Term Financing Strategy for a Pakistan Business

- Pakistan economy with so much uncertainty poses real threat in reliable forecasting and business sustainability for any organization and hence, requires more flexible financing mode to accommodate for frequent changes and uncertainty.
- Pakistan being an Islamic State has an immense potential for equity financing
- Currently in Pakistan with Interest rate being at 40 years low makes the leverage financing very lucrative.

More dependence on leverage finance is viable for business which are less volatile to challenges mentioned above and have low business risk. However, for businesses where volatility is high higher portion of equity finance is considered to be a more viable option.

Thank You