Chartered Financial Modeler (CFM)

Blackrat SPV

Topic 6: Debt – April 2019 Exam

Blackrat SPV Pty Ltd (the "Company") is a special purpose vehicle company created to operate a single 10-year project starting 31 Dec 2018 (the "Start Date") and ending 31 Dec 2028. It has three sources of financing comprised of Senior Debt, Junior Debt, and Equity. Use the following information and the accompanying spreadsheet ("Case1Data") to complete the tasks and answer the questions listed below.

Senior Debt

The Senior Debt repayment schedule is determined such that a specified Debt Service Coverage Ratio (DSCR) is maintained. Repayments are made at the end of each quarter. Interest is paid quarterly and is based on the opening balance in the period. DSCR is based on the following quarterly cash flows:

[EBITDA + Interest Income] / [Senior Debt Interest + Senior Debt principal repayments]

The Debt Service Reserve Account (DSRA) is pre-funded at the start of the project and will earn interest income at a rate of 1.50% per annum. The DSRA balance will remain unchanged as long as the Senior Debt is outstanding. Once the Senior Facility has been fully repaid, the balance of the DSRA will be released as cash flow.

Junior Debt

The Junior Debt principal balance is to be repaid in forty (40) equal quarterly payments, beginning on the first quarter end date after the Start Date. Interest is paid quarterly and is based on the opening balance in the
period.

Equity

The initial equity contribution is made on the Start Date.
Quarterly cash flow is received on the final day of each quarter and is comprised of:

- EBITDA from the project (forecast values provided)
- Interest income from the DSRA
- Cash flow from the release of the DSRA
- Less Senior and Junior Debt service (interest and principal repayments)

There are no other sources of revenues or expenses to be considered. Any remaining cash flow after debt service is distributed to equity.

[Case continues on next page]

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Tasks to Complete / Questions:

a) Build schedules to track the Senior Debt, Junior Debt, Equity and DSRA.

b) Ensure that the model has flexibility to the user to run Sculpting and Interest Rate and EBITDA scenarios.

c) Under the Neutral Sculpting and Interest Rate Scenario and EBITDA Case 1 (ie. the Base Case), in what period is the Senior Facility repaid?

d) What is the total interest paid on the Junior Facility?

e) Under the Aggressive Sculpting and Interest Rate Scenario and EBITDA Case 2, what is the distribution to equity on 31 March 2020?

f) Which scenario combination gives the highest IRR to equity?

g) Which scenario combination gives the lowest NPV to equity?

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