

COVID-19: KPMG debt advisory support to businesses

The uncertainty and disruption caused by COVID-19 will undoubtedly have **severe financial implications** on local businesses and will probably put a strain on their cash positions. Cash is key to the survival and growth of any business, hence **effective cash and liquidity management** is an increasingly critical practice to maintain a steady stream of working capital. Going forward, all businesses must **critically re-examine their debt capacity and debt servicing ability** and proceed with **financial restructuring** of their obligations.



Ministry of Finance and Central Bank of Cyprus measures

As of today, the Ministry of Finance ("MOF") and the Central Bank of Cyprus ("CBC") have already announced a number of measures, subject to eligibility criteria, the key provisions of which are as follows:

- Suspension of loan instalments, including interest, relating to 'eligible' loans, until 31 December 2020
- Capital relief of €1,4 billion to financial institutions. The CBC has instructed that this relief be transferred for the support of local businesses and households
- The CBC has issued a directive instructing commercial banks to provide new short-term liquidity assistance to viable borrowers (physical and legal entities), who have been adversely affected by the pandemic crisis, in the form of an overdraft or a short-term loan with a duration of up to 12 months. The amount of the liquidity finance shall not exceed:
 - Two times the payroll cost of the business (for 2019 or the last year available) or 25% of the total 2019 revenue of the business
 - 25% of the 2019 gross income of an individual in the case of physical persons
- Any new financing should be tested against debt sustainability and viability on the basis of financial information pertaining to periods pre the COVID-19 crisis, with suitable debt restructuring of existing exposures, if needed
- New facilities should be granted at favourable interest rates and with minimal administration or other costs
- Other Governmental support measures are currently under discussion



The resilience of your business, however small or large, requires immediate action and thorough planning



What does this mean for businesses?

Businesses are required to:

- **Take proactive steps to gain control over the situation**
- **Gain visibility** over their **liquidity situation** and their **immediate and future cash flows**
- **Proactively manage** their **working capital needs**
- **Ensure** that their **business model** fully considers and **reflects their critical cash requirements**
- Take both **immediate and medium to longer term actions** in order to secure their business continuity and resilience
- Businesses must act fast to **take advantage of the measures** announced
- Businesses must critically examine their debt structure, repayment programmes and covenants and proceed with **comprehensive debt restructuring**, if needed
- Businesses must immediately **interact with their financing banks**



What must you do?

Businesses must immediately:

- Critically **evaluate their cash and liquidity situations**, now and during the next few weeks and months, and take immediate action, as part of a rolling plan, to **ensure adequate availability of cash liquidity**
- Examine if the **loan instalments postponement scheme** is needed and **submit an application** to the relevant financial institutions
- On the basis of their evaluation of their cash and liquidity situations and projections, **submit an application** to their financing banks for **extra or stand-by liquidity facilities**, if needed
- Take a critical view and assessment of the business' **maximum debt capacity, its existing debt structuring, its sustainable debt servicing ability, and its existing loan covenants** and submit to the relevant financial institutions a **comprehensive and adequately substantiated restructuring proposal**



How can KPMG help?

KPMG's Restructuring practice has **many years of experience** of working with management, lenders and other stakeholders, **to address critical liquidity, cash flow and / or debt structure and debt servicing challenges:**

Immediate Actions to preserve short-term business continuity

- Examine liquidity and cash availability positions, identify and implement **short-term income, expenditure, cash generation and cash preservation initiatives, cash controls and KPIs** and advise on **liquidity strategies** and develop **robust short-term cash flow forecasts**
- Assist the business in submitting their **substantiated applications** to financing banks and other financial institutions (eg loan instalments postponement, extra liquidity facilities, interest rate reduction)

Subsequent Actions to safeguard business medium and longer term viability

- Thoroughly **review existing capital structures and debt** facility agreements, repayment programmes and covenants
- Develop **restructuring plans** (including alternative / contingency scenaria) to align with the **business' inherent operating cash generating ability and maximum debt capacity**
- Assist businesses in submitting their **debt restructuring applications** to banks and support them in managing **communications, interactions and negotiations** with relevant stakeholders
- Explore **alternative financing options** with investors / financiers.

The above are subject to revision on the basis of legislative amendments and new measures to be introduced and can be customized according to the exact needs of the business.

Agile support

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