

Case study: Propane Performance Industries

NZECO solution: Mitigate Repayment Risk / Access Trade Finance

NZECO product: Short-Term Trade Credit Guarantee

Sector: Manufacturing

NZECO Credit Insurance assists exporter access trade finance and mitigate credit risk



The Challenge

In late 2011, Propane Performance Industries (PPI) secured a purchase order and 12 month forecasts from GM Holden in Australia, for the ongoing supply of revolutionary aluminium propane (LPG) fuel tanks. The car manufacturer's and PPI's suppliers terms of trade resulted in a funding gap of 30 – 60 days on each purchase order. As this was PPI's first significant sale after a number of years' development, they had no significant tangible assets, and had no lending relationship with a bank.

The Process

PPI approached their bank to determine whether they could access trade finance based on the trade with Holden. The bank was interested in providing funding once PPI had shipped to and invoiced the customer. However as additional security, the bank required the assignment of a credit insurance policy on the buyer repayment terms. As this was the first sale by PPI, the private sector credit insurers' minimum annual upfront premiums were unaffordable when compared with the expected sales turnover. The bank then requested NZECO to assess and insure the credit risk.

Holden is a subsidiary of GM, a multi-national US headquartered company, so NZECO obtained a quality credit report (from a reporting agency), supporting information from the Parent company and then undertook an assessment of the buyer's credit standing.

The Solution

The result of the credit appraisal was positive and NZECO offered a short-term trade credit insurance policy to PPI and their bankers to enable them to provide trade finance against the value of shipments sent to Holden. PPI use the funding to pay suppliers, with repayment of the facility coming from Holden payments.

"This first sale has taken a number of years to come to fruition and is so important, because it gets PPI market acceptance. The attentiveness of our Bank and NZECO was rated highly. It does add cost but we understand the need for this risk mitigation tool that also enables us to access finance, which is in itself a barrier to entry. PPI has a product, a market and a great story. Finance is a barrier, and PPI now has access to it." said Andrew Rodwell, Managing Director.

Carmen Moana, Manager of NZECO, commented that "this is an example of how NZECO assist a small and growing exporter to access credit insurance when the private sector solution cannot be accessed affordably. It enables PPI to prudently de-risk a transaction and access trade finance from their bank."

www.ppidts.com

NZECO contacts:
Tel: +64 04 917 6060 - Email: nzeco@treasury.govt.nz
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