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Dr M Manickaraj¹
Akhil Babbar²

Al-Safa Meatex Pvt. Ltd.: Developing a Financial Model for Credit Appraisal

In July 2024, the Corporate Credit Division of National Commercial Bank (NCB) launched an initiative to standardize credit appraisal models for large export-oriented clients. The goal was to ensure greater consistency in how borrower data was analyzed and presented across regional and branch offices. The existing practice of using the Credit Monitoring Arrangement (CMA) format had led to confusion and delays during credit review meetings, particularly in appraising working capital requirements.

To pilot the initiative, the bank selected one of its long-standing clients: Al-Safa Meatex Pvt. Ltd. (ASPL), a major exporter of halal-certified meat products. The assignment was entrusted to Arun Sharma, a Credit Officer in the Corporate Credit Division. Arun's task was to build a financial model that could serve a dual purpose:

1. Evaluate ASPL's request for an enhanced cash credit limit of ₹500 crore for FY2025, and
2. Provide a reusable template that could be adapted for similar clients in the future.

To support the exercise, a data file was circulated that included five years of audited financials sourced directly from Probe42. Officers were expected to recreate the model outputs—common-size statements, ratio analysis, trend summaries, working capital assessments, and financial projections—without embedded formulas. This approach was meant to strengthen their modeling skills and encourage internalization of appraisal logic.

Why a New Model Was Needed?

The National Commercial Bank (NCB) had long relied on the CMA format for credit assessment of working capital borrowers. However, its limitations had become increasingly evident.

Firstly, the CMA format was not designed to handle financial projections. While it allowed for break-up of current assets and liabilities for assessing working capital needs, it did not

¹ Dr Manickaraj, Faculty in finance, National Institute of Bank Management, Pune.

² Akhil Babbar is PGDM (2024-26) student, National Institute of Bank Management, Pune.

facilitate preparation of future profit and loss accounts, balance sheets, or cash flow statements—critical for medium-term credit decisions.

Secondly, the rise of digital data platforms like Probe42 brought new challenges. Though Probe42 offered structured, reliable financial statements, banks still had to manually adapt this data into CMA formats, leading to delays, inconsistencies, and risks of error. In fact, the financial statements used in this case—Al-Safa’s balance sheet and profit and loss account—were directly sourced from Probe42, reflecting the bank’s growing dependence on such platforms.

Moreover, assessing working capital requirements remained a contentious task. Credit officers often used rules of thumb or relied solely on past sanction levels. There was no systematic method to derive or justify the ₹500 crore cash credit limit sought by ASPL, especially given rising inventory and receivables levels, volatile export cycles, and thin margins.

Recognizing these gaps, NCB’s senior management decided to move toward flexible, Excel-based financial models that could:

- Integrate directly with digital data sources like Probe42,
- Enable full financial projections,
- Allow transparent estimation of working capital requirements using holding periods or operating cycle analysis,
- And serve as a blueprint for scalable, reusable templates across the bank.

Arun Sharma’s task, therefore, went beyond appraising a single borrower. He was now responsible for piloting a next-generation financial model that could enhance credit assessment quality and support decision-making in a rapidly digitizing banking environment.

Company Background

Al-Safa Meatex Pvt. Ltd. is a privately held company established in 1991. It operates five integrated processing plants across India and exports to over 40 countries. In FY2024, the company reported revenues of ₹6,653 crore, reflecting steady growth despite thin operating margins and rising working capital needs. The audited balance sheet and profit & loss statement of the company are presented in Exhibit 1 and Exhibit 2 respectively.

ASPL maintains borrowing relationships with a consortium of banks, including NBC, where its facilities mainly comprise working capital limits secured against inventory and receivables. The company had requested cash credit limit of Rs. 500 crore for the FY2025. This request placed greater scrutiny on the bank’s ability to assess the firm’s working capital cycle and objectively estimate financing needs.

The Decision Dilemma

Amit faced several questions:

- How detailed should the model be? Should it contain granular segment-wise projections, or a simpler consolidated view to ensure ease of use?
- What assumptions about revenue growth, margins, and working capital cycle would be credible, given the volatility in export markets?
- What methodology should be used to estimate working capital requirement—operating cycle analysis, norms-based benchmarking, or a cash flow-based approach?
- Should the model include scenario analysis for risks like fall in sales growth and margin compression?
- Most importantly, how could he structure the model so that it could be reused across clients without excessive rework, while addressing the gaps left by the CMA format?

Arun knew that a model that was too simplistic could fail to capture the nuances of Al-Safa Meatex's business, but a model that was too complex could discourage adoption by other branches. Arun had only two weeks to complete the assignment before the next Sanction Committee meeting, where the model would be presented for review and approval.

Arun wanted to design a financial model with the components as indicated in Exhibit 3 that addresses the following objectives:

- Historical Analysis, projection of Profit and Loss Statement, Balance Sheet, and Cash Flow forecasts for FY2025 and FY2026, Working Capital Assessment, etc. based on clear assumptions.
- Accurate assessment of working capital requirements and justification of the proposed cash credit facility.
- Adaptability to ensure the model can be easily reused for similar clients.

Exhibit 1: Audited Balance Sheet of Al-Safa Meatex Pvt. Ltd.

	31 Mar, 2020	31 Mar, 2021	31 Mar, 2022	31 Mar, 2023	31 Mar, 2024
Equity and Liabilities					
Equity					
Share Capital	27.32	27.32	27.31	27.31	27.31
Reserves and Surplus	440.98	602.98	775.59	928.95	970.51
Other Equity	0.00	0.00	0.00	0.00	0.00
Total Equity	468.30	630.30	802.90	956.26	997.82
Liabilities					
Non-current Liabilities					
Long Term Borrowings	94.05	83.11	154.86	102.76	127.92
Net Deferred Tax Liabilities	13.91	13.95	16.41	18.52	17.94
Other Long Term Liabilities	5.13	3.07	4.28	5.65	16.59
Long Term Provisions	8.09	10.22	11.72	12.86	14.46
Total Non-current Liabilities	121.19	110.34	187.28	139.78	176.91
Current Liabilities					
Short Term Borrowings	295.21	450.90	671.19	718.15	1,136.48
Trade Payables	105.95	147.44	184.28	212.81	266.05
Other Current Liabilities	99.47	38.18	25.54	44.70	83.89
Short Term Provisions	1.55	10.52	10.51	10.87	2.74
Total Current Liabilities	502.18	647.05	891.52	986.54	1,489.16
Total Equity and Liabilities	1,091.67	1,387.69	1,881.69	2,082.58	2,663.89
Assets					
Net Fixed Assets					
Tangible Assets	404.68	405.72	658.44	646.00	694.04
Intangible Assets	5.43	4.47	4.70	4.72	4.90
Total Net Fixed Assets	410.11	410.19	663.15	650.72	698.94
Capital Work-in-progress	2.50	5.66	34.97	108.46	162.29
Other Non-current Assets					
Non-current Investments	0.00	0.00	0.00	0.00	0.00
Net Deferred Tax Assets	-	2.28	-	6.84	8.11

	31 Mar, 2020	31 Mar, 2021	31 Mar, 2022	31 Mar, 2023	31 Mar, 2024
Long Term Loans and Advances	3.66	4.93	6.25	7.65	8.52
Other Non-current Assets	22.26	108.03	11.90	0.89	0.91
Total Other Non-current Assets	25.92	115.23	18.15	15.38	17.54
Current Assets					
Current Investments	0.00	0.00	0.00	0.00	0.00
Inventories	190.93	357.80	465.11	544.23	833.39
Trade Receivables	299.96	382.87	538.16	552.63	682.69
Cash and Bank Balances	49.08	75.13	74.61	108.13	128.20
Short Term Loans and Advances	1.40	1.45	4.54	2.90	5.12
Other Current Assets	111.78	39.36	83.01	100.14	135.73
Total Current Assets	653.15	856.62	1,165.42	1,308.02	1,785.11
Total Assets	1,091.67	1,387.69	1,881.69	2,082.58	2,663.89

Note: All figures in INR Crore

Source: Probe42 database.

Exhibit 2: Audited Profit and Loss Statement of Al-Safa Meatex Pvt. Ltd.

	31 Mar, 2020	31 Mar, 2021	31 Mar, 2022	31 Mar, 2023	31 Mar, 2024
Net Revenue	3,156.61	3,997.52	5,368.72	6,152.64	6,653.18
Operating Cost					
Cost of Materials Consumed	2,062.53	2,760.08	3,739.45	4,060.13	5,017.34
Purchases of Stock-in-trade	411.66	365.23	476.58	667.10	517.39
Changes in Inventories / Finished Goods	-105.60	-161.48	-98.10	-76.50	-281.50
Employee Benefit Expense	55.51	62.85	72.78	84.99	98.94
Other Expenses	486.18	727.16	935.55	1,075.21	1,016.11
Total Operating Cost	2,910.28	3,753.84	5,126.27	5,810.93	6,368.28
Operating Profit (EBITDA)	246.33	243.68	242.45	341.71	284.90
Other Income	18.41	34.22	43.85	25.13	25.89
Depreciation and Amortization Expense	35.04	35.48	33.76	39.35	46.25
Profit Before Interest and Tax	229.69	242.42	252.54	327.49	264.53
Finance Costs	28.72	18.34	20.31	42.88	62.71
Profit Before Tax and Exceptional Items Before Tax	200.97	224.08	232.24	284.61	201.82
Exceptional Items Before Tax	-	-	-	-	-
Profit Before Tax	200.97	224.08	232.24	284.61	201.82
Income Tax	47.31	61.82	60.43	75.04	49.03
Profit for the Period from Continuing Operations	153.66	162.27	171.81	209.58	152.79
Profit from Discontinuing Operations After Tax	-	-	-	-	-
Profit for the Period	153.66	162.27	171.81	209.58	152.79
PROFIT & LOSS - KEY SCHEDULE (Rs. Crore)	31 Mar, 2020	31 Mar, 2021	31 Mar, 2022	31 Mar, 2023	31 Mar, 2024
Managerial Remuneration	0.00	0.00	0.00	0.00	0.00
Payment to Auditors	0.65	0.45	0.54	0.59	0.61
Insurance Expenses	0.00	0.00	0.00	0.00	0.00
Power and Fuel	29.05	32.00	46.93	57.08	61.99

Note: All figures in INR Crore

Source: Probe42 database.

Exhibit 3: Model Components

1. Historical Data Sheet

- 5 years of audited balance sheet and P&L data.

2. Common-size statements and Trend statements

3. Ratio Analysis

- Profitability ratios
- Turnover ratios
- Holding Periods and Operating Cycle
- Leverage ratios
- Cash flow statement
- Altman Z Score

4. Projection Sheets

- Income statement projections for FY25 and FY26.
- Balance sheet projections for FY25 and FY26.
- Cash flow forecasts (operating, investing, financing flows).
- Assumptions tab (growth rates, margins, working capital cycles).

5. Working Capital Assessment

- Computation of working capital using various methods
- Computation of projected inventory and receivables.