COMMERCIAL CREDIT RISK ASSESSMENT

Cascadia Fabrication & Supply Ltd.

Independent Applied Project | Prepared by Md Miadad Rafiq Sami, Independent Credit & Data Analytics Consultant | 2025–2026

1. Recommendation

Approve a total credit facility of $10.0M for Cascadia Fabrication & Supply Ltd., comprising a $6.5M revolving line of credit (borrowing base secured against eligible accounts receivable and inventory) and a $3.5M equipment term loan amortizing over five years, subject to the conditions and covenants outlined in Section 6. The borrower demonstrates a three-year revenue growth trend from $42.8M to $50.2M, an EBITDA margin sustained near 9.5%, and a debt service coverage ratio (DSCR) that remains above 2.0x even under a stress-tested downside scenario. The primary basis for approval is cash flow strength and a demonstrated de-leveraging trend; the primary condition is active monitoring of customer and end-market concentration, addressed through the covenant package and monitoring plan below.

2. Borrower Overview

Legal Name: Cascadia Fabrication & Supply Ltd. (illustrative / composite borrower constructed for this applied project)

Industry: Structural steel fabrication and industrial metal supply

Headquarters: Surrey, BC, serving construction, energy/resource, and infrastructure clients across Western Canada

Ownership: Privately held, family-owned, 20+ years operating history

Requested Use of Proceeds: Support seasonal working-capital growth and finance new CNC fabrication equipment

3. Historical Financial Performance (FY2022–FY2024)

Revenue grew from $42.8M in FY2022 to $50.2M in FY2024, a 12.9% cumulative increase (8.4%, 8.6%, and 8.0% year-over-year), with gross margin stable in the 23% range and EBITDA margin holding near 9.5%. Over the same period the company reduced total debt from $2.45M to $0.35M and paid its revolver down to zero, evidencing consistent free cash flow generation and a demonstrated ability and willingness to de-lever ahead of the current facility request.

Metric	FY2022	FY2023	FY2024
Revenue ($000s)	42,818	46,500	50,220
EBITDA ($000s)	4,068	4,371	4,922
EBITDA Margin	9.5%	9.4%	9.8%
Total Debt / EBITDA	0.75x	0.31x	0.07x
DSCR	2.27x	2.75x	3.50x
Current Ratio	1.78x	2.12x	2.30x

4. Forecast & Stress Test (FY2025–FY2027)

A three-year, three-statement forecast was built under Base, Upside, and Downside scenarios, varying revenue growth, gross margin, SG&A leverage, working-capital days, and financing cost assumptions. The Downside case assumes a construction-sector slowdown: revenue growth decelerating to 2.0%, 1.0%, and 0.0%, gross margin compressing from 23.1% to 20.1% on steel input-cost inflation, and working-capital days extending as customers slow payment. Even in this scenario, EBITDA remains positive throughout, leverage peaks at 0.68x (well inside covenant), and DSCR does not fall below 2.00x in any forecast year.

Metric	FY2027 Base	FY2027 Upside	FY2027 Downside
Revenue ($000s)	60,662	65,332	51,737
EBITDA ($000s)	6,370	8,363	2,794
Total Debt / EBITDA	0.22x	0.17x	0.53x
DSCR	4.31x	5.89x	2.00x

5. Key Risks & Mitigants

- Customer concentration — the top three customers represent an estimated 39% of FY2024 revenue. Mitigant: no single customer exceeds 20% of revenue; the borrowing base advance rate and covenant package are structured to absorb the loss of any one account without breaching DSCR.
- End-market cyclicality — construction represents an estimated 55% of revenue, exposing the borrower to housing- and infrastructure-cycle swings. Mitigant: energy/resource (30%) and government infrastructure (15%) exposure provide partial counter-cyclical balance, and the Downside stress test already incorporates a sustained construction slowdown.

- Input cost inflation — steel and fabricated-metal input costs are volatile and compressed margin in the Downside case by roughly 300 basis points. Mitigant: the borrower's historical pass-through pricing clauses have preserved gross margin within a narrow band through prior cost cycles.
- Key-person and ownership concentration — the business is family-owned with concentrated management. Mitigant: request a key-person summary and confirmation of a documented management succession plan as a closing condition.
- Working-capital stress in a downturn — DSO/DIO extend and DPO compresses in the Downside case, increasing revolver reliance. Mitigant: the revolving facility is purpose-built for exactly this seasonal and cyclical working-capital need, and the borrowing base formula caps advances against eligible, aged collateral.

6. Proposed Structure & Conditions

Revolving Line of Credit: $6.5M; borrowing base = 80% of eligible AR under 90 days + 50% of eligible inventory

Equipment Term Loan: $3.5M; 5-year straight-line amortization; secured by general security agreement and specific equipment charge

Financial Covenants: Minimum DSCR 1.25x; maximum Total Debt/EBITDA 3.00x; minimum current ratio 1.20x, tested quarterly

Reporting: Quarterly financial statements and covenant compliance certificate; annual audited or review-engagement statements; annual borrowing-base and customer-concentration file

Other Conditions: Confirmation of key-person/succession plan; insurance schedule naming lender as loss payee on financed equipment; no additional funded debt without lender consent

7. Monitoring Plan

Post-close monitoring is structured around three layers: (1) quarterly covenant certification against the DSCR, leverage, and current ratio thresholds above; (2) an internal early-warning watchlist using tighter thresholds (DSCR below 1.60x or leverage above 2.25x) to flag deterioration before a covenant is actually breached; and (3) an annual full credit review incorporating updated customer-concentration and end-market mix analysis. A live monitoring dashboard tracking DSCR drift, leverage trend, concentration, watchlist status, and the review calendar accompanies this memo.

8. Lending Rationale

This is a fundamentally sound, cash-generative mid-market manufacturer with a demonstrated multi-year track record of revenue growth, margin stability, and voluntary de-leveraging ahead of this request. Stress testing across a plausible construction-sector downturn confirms debt service capacity remains comfortable, with DSCR never falling below 2.00x. The recommended covenant package and monitoring plan directly address the borrower's two most material risks — customer and end-market concentration — without imposing conditions the business cannot reasonably meet. On this basis, approval with the conditions above is recommended.