



Internship Report

Master in International Business

Credit Management

Joana Ruivo Carreira Miguel

Leiria, September of 2017

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Report developed under the supervision of Doctor Inês Margarida Cadima Lisboa, professor at the School of Technology and Management of the Polytechnic Institute of Leiria.

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Acknowledgements

In first place, a heartfelt thanks to the people who gave me that I am today and everything that I could made throughout my life, my parents. For all the values, effort, dedication and courage they have given me by showing me that my future only depends on me and my work. I want to thank also my University that helped me to grow as a person and get a high-level learning during all this year at the Institute Polytechnic of Leiria.

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Resumo

O presente relatório foi realizado no âmbito do estágio realizado na empresa Umbelino Monteiro SA., enquadrado no segundo ano do *Master in International Business*.

A realização do estágio permitiu o contacto com a realidade empresarial, tendo desenvolvido tarefas num período de aproximadamente seis meses nas áreas financeira e comercial. As tarefas desenvolvidas serão explicadas no presente trabalho bem como os procedimentos utilizados.

Uma das tarefas realizadas, onde o tempo despendido foi elevado e tentei apoiar mais a empresa, está relacionado com o tema gestão de créditos. A gestão de créditos, embora não sendo um tema novo, é de extrema importância para as empresas, pois permite a redução do seu risco. Na Umbelino esta relevância não é exceção, devido ao seu vasto número de clientes de diversos países.

Com a crise de 2007/2008, A Umbelino, tal como muitas empresas, começou a sentir grandes dificuldades relativamente ao recebimento do crédito de clientes. Várias empresas foram à falência, deixando outras empresas em dificuldade e criando uma bola de neve, que se traduziu em problemas com o crédito na generalidade das empresas.

Face a esta relevância o tema gestão de crédito é abordado no presente trabalho. Adicionalmente é analisado o caso específico da empresa em questão e são apresentadas algumas sugestões de melhoria.

A Umbelino recorre a análises mensais e a seguros de crédito, de forma a poder minimizar o risco assumido. Porém falta-lhe recursos humanos suficientes para se dedicarem mais a esta questão e utilizarem todas as ferramentas que a empresa já tem disponível.

Palavras-chave: estágio, Umbelino Monteiro, gestão de crédito, risco de crédito, políticas de crédito.

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Abstract

This report is based on the internship activities performed at Umbelino Monteiro SA, to finish my International Business Master.

The internship allowed me to have contact with the business reality. I have developed tasks in a period of approximately six months in the financial and commercial areas. All the activities and procedures used will be explained in this report.

One of the activities that consumes most of the time and in which I tried to support the company, is related with credit management. Credit management is not a new theme, but is still relevant to each firm as it allows to reduce their risk. At Umbelino this relevance is not an exception, due to the higher number of customers from different countries.

With the crisis of 2007/2008, Umbelino, like many firms, began to experience great difficulties regarding the receipt of customer's credit. Several firms went bankrupt, leaving other companies in trouble and creating a snowball, which resulted in credit problems in most companies.

For this reason, credit management theme is addressed in this paper. Moreover, the specific case of the company in question is analyzed, and some suggestions for improvement are presented.

Umbelino uses monthly analyzes and credit insurance, in order to minimize the risk assumed. Although the firm lacks sufficient human resources to devote more to this issue and to use all the tools that the company already has available.

Keywords: internship, Umbelino Monteiro, credit management, credit risk, credit policies.

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List of figures

Figure 1: Etex group.....	3
Figure 2: Organizational Structure of Umbelino Monteiro S.A.....	4
Figure 3: Advance Premium Lusa.....	6
Figure 4: Application of Advance Premium Lusa.....	6
Figure 5: Advance Premium Marseille.....	6
Figure 6: Rossio Station.....	6
Figure 7: UM Lusa.....	7
Figure 8: Application of UM Lusa.....	7
Figure 9: UM Canudo.....	7
Figure 10: Amendoeiras Golf.....	7
Figure 11: Application of Fibrocement.....	8
Figure 12: Five forces of Porter.....	9
Figure 13: Net sales VS SSE and workforce costs	11
Figure 14: Umbelino Monteiro Swot analysis	12
Figure 15: Financial report.....	29
Figure 16: Cosec’s Insurance Cycle.....	31
Figure 17: Age of debt.....	39

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List of acronyms

AICEP – Agency for investment and foreign trade in Portugal

CA – Commercial assistant

C & F – Cost & freight;

DMS – Document management system;

DPO – Days payable outstanding;

E2 – Income Statement;

E3 – Balance Sheet;

EBITDA – Earnings Before Interest, Tax, Depreciation and Amortization;

ER – Export responsible;

ETCI – Extraordinary tax credit investment;

FEBA – Electronic bank system;

FOB – Free on board;

FO – Framework;

IPL – Institute Polytechnic of Leiria

IRS - Internal revenue service;

ROA – Return on Assets;

ROE – Return on Equity;

MIGO – Goods movement;

SSE – Supplies Services Expenses;

YNB – non-stock purchase request.

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Table of Contents

ACKNOWLEDGEMENTS	III
RESUMO	V
ABSTRACT	VII
LIST OF FIGURES	IX
LIST OF ACRONYMS	XI
TABLE OF CONTENTS	XIII
1. INTRODUCTION	1
2. UMBELINO MONTEIRO PRESENTATION	2
2.1. HISTORY	2
2.2. ORGANIZATIONAL STRUCTURE	4
2.3. PRODUCTS	5
2.4. MISSION, VALUES AND VISION	8
2.5. MARKET'S ANALYSIS	9
2.6. FINANCIAL DATA	11
2.7. SWOT ANALYSIS	12
3. INTERNSHIP	14
4. CREDIT MANAGEMENT	22
4.1 CREDIT POLICIES	24
4.2 CREDIT LIMIT	27
4.3 CREDIT INFORMATION	28

4.4 CREDIT RISK MODEL'S	31
4.5 FINANCIAL ANALYSIS	33
4.6 BAD DEBT	35
4.7CREDIT MANAGEMENT IN UMBELINO MONTEIRO	35
5. CONCLUSION	41

1. Introduction

After finishing the first year of international business master, provided by Institute Polytechnic of Leiria (IPL), there was a possibility to elaborate a curricular internship, that's allow the intern to have a notion how the business world works and to obtain knowledge that could be used in the job market. The internship was proposed by me, because I used to work at this company, but in a service centre in Leiria. This centre closed in March of 2016 and I lost my job, so I spoke with Décio Reis to see if there was a possibility to do the internship in here and he said yes.

The internship in Umbelino Monteiro, SA, allowed me to growth a lot in the way of understanding life. One of my tasks was to manage the customer's credit limit, which is important. Since the crisis in Angola in 2015, Umbelino took precautions about the customer's credit. Was urgent to analyse all customers and give them a credit limit more precise, in a way that the system will block the order when is over limit. Credit limits are an important issue in Umbelino, so for that reason I choose this topic in a way to help the company to improve this process.

During the internship, I had Sílvia's Carvalho support, dedication, integration and availability. The internship was developed as planned and I internalized the company values. The internship allowed me to set goals that I want to accomplish in the future, and help me to realize that accounting and management is my professional path.

After this first chapter of introduction, the second chapter presents the company, the organizational structure, and the products. Some financial data is shown and a briefly presentation about the market. After that, in the third chapter I explain all the tasks developed during my internship. The fourth chapter shows all the important information's for a good credit management. Umbelino's credit management practices are also explain, and after I gave my critical analyse, where I give some suggestions to the company. Finally, the conclusions of the work are presented in chapter five.

2. Umbelino Monteiro Presentation

Umbelino Monteiro is located in Meirinhas, Pombal. Is a company that produces roof tiles and ceramic accessories. They have a good client portfolio, and bet heavily on exports, with African countries representing about 41 percent. In the last years the domestic market is in crisis, leading to Umbelino domestic sales decreasing. Although, the Portuguese market still represent 59 percent of turnover.

2.1. History

Umbelino Monteiro was established in 1959 by Joaquim Monteiro da Silva to produced Lusa roof tiles. In 1975, his son Joaquim Umbelino da Silva Monteiro token control of the company. Due to the new dynamic forces and an advanced modernized technology was created a new strategy regarding the quality and diversification of the product.

In 1997, the company began a new cycle of technological renovation and expansion. They start using the most modern technology to produce roof tiles with more quality and innovation. New products and finishing were introduced: Planum roof tile, Blazed finishing variegated and Tavira.

In 2002, they continued the project of expansion and modernization that was started in 1997. Since 2003, roof tile is a certified product, so Umbelino built an equipped laboratory to develop production and quality.

In 2004, Umbelino launched the Advance, a new brand of roof tiles, which is exclusive and innovated in innumerable levels: technological, aesthetical and functional. In the same year, Umbelino start to export to Spain, due to its proximity, gained experience and suitability of the product on the market. Umbelino also entered to foreign markets such as Angola, Cape Verde, Arabian Emirates and Lebanon.

In May 2007, a new era started for the company. Umbelino Monteiro was incorporated in a multinational, Etex Group. Etex group is an industrial group that produces and markets high-quality building materials and systems.

With headquarters in Belgium, the Group holds more than 99 companies across 42 countries, more than 120 factories and employs more than 17,442 people. In the figure below, we can see in the map where the companies are located.

FIGURE 1: ETEX GROUP



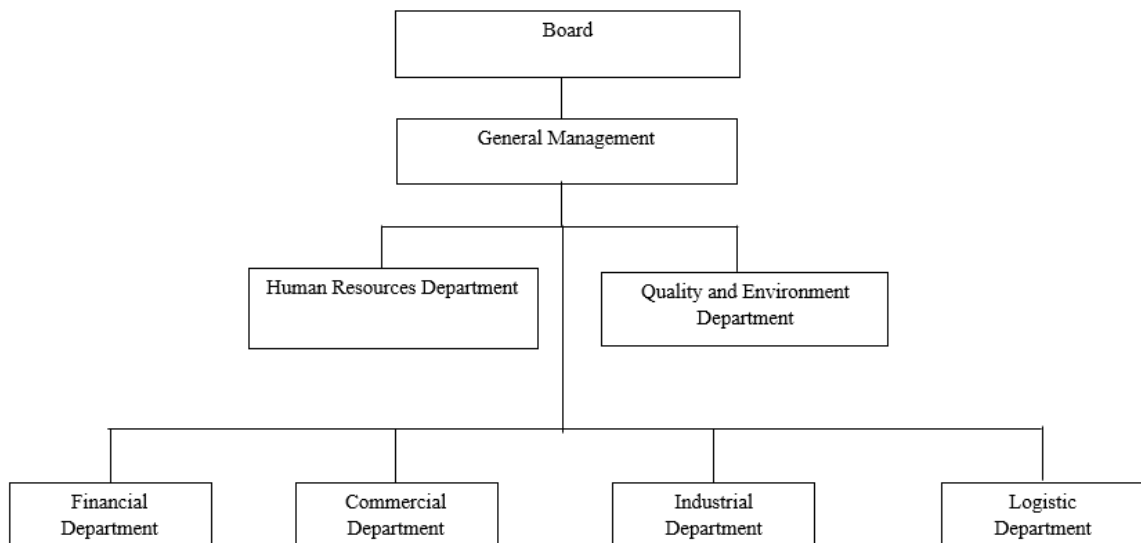
SOURCE: ETEX GROUP S.A

Umbelino was in 2011 the first Portuguese company certified in ceramic tiles of the Environmental Management System according ISO 140001.

2.2. Organizational Structure

Umbelino is managed by the general manager that receives orders from the board (Etex group). In figure 2, I have the organizational structure of the company.

FIGURE 2: ORGANIZATIONAL STRUCTURE OF UMBELINO MONTEIRO SA



SOURCE: UMBELINO MONTEIRO SA

With the organization chart, it's easier to understand the structure of the company. In **general management**, we have the Iberia director Javier Alcubilla that oversees several departments, such as, Financial, commercial, Industrial, Logistic, Human Resources, Quality and Environment. In charge of the **financial department** is Décio Reis, which have two more people working with him, one accountant and one informatics. In this department is where is managed all the customers and all financial part, such as, VAT, corporate tax. I was integrated in this department, during my internship.

In charge of the **commercial department** is Francisco Simões, which has several people working with him. In this department is include, marketing, export and domestic market. The commercial department is where they make the proposals to the actual and potential

customers, in foreign and domestic markets, and they organize events and fairs to promote the products.

Next is the **industrial department**, in charge is Pedro Valente, which works with several people. This department oversees all production, purchases and safety.

The **logistic department** is charge by José Bernardo, who works with two assistants. In this department they book the transports, organized stocks and park management.

In charge of the **human resources** is Sara Caseiro. In this department, she takes care of all the hiring, the salaries, trainings and work medicine's management.

In charge of the **quality and environment** department is João Ginginha, working with him is a responsible for the environment that takes care of the residual waste and the certification of the company. In this department also work two more people that do tests to verify the quality of the product.

2.3. Products

Umbelino has five different types of roof tiles: Advance Premium Lusa, Advance Premium Marseille, UM Lusa, UM Canudo and Fibrocement products. These products can come in different colors, finishing and shades.

The **Advance Premium Lusa** is inspired by the traditional Lusa roof tile. It combines the popularity of the tile form with the technical consistency of the production process. It is different and revolutionary and the most demanding customers have already taken a liking to it. To produce this roof tile is used sandstone clay and plaster molds.

This roof tile is a product of reference that ensures excellent levels of strength and durability. In figure 3 is the roof tile advance Premium Lusa in natural colour. In figure 4 is represented an application of the roof tile.

FIGURE 3: ADVANCE PREMIUM LUSA



FIGURE 4: APPLICATION OF ADVANCE PREMIUM LUSA



SOURCE: UMBELINO MONTEIRO S.A

The **Advance Premium Marseille** is one of the most successful in Europe, because it can be used in several types of roof tops. It has a discreet profile, but exquisite, give to the roof a harmony and a very characteristic plastic. This roof tile is known to be in rehabilitation building, in differentiation of large urbanizations and even in the most daring projects. In figure 5 is the roof tile advance premium Marseille in natural colour. In figure 6 is Rossio Station, where was applied advance premium Marseille.

FIGURE 5: ADVANCE PREMIUM MARSEILLE



FIGURE 6: ROSSIO STATION



SOURCE: UMBELINO MONTEIRO S.A

Another product is the **UM Lusa**. Due to many years of experience and investigation in perfecting the manufacturing, as well in choosing the best raw-material, this roof tile is

the ideal answer for covers. This tile guarantees a big resistance to flexure and shock, is economic and has good results. In figure 7 an example of the roof tile UM Lusa in natural colour, in figure 8 is an example of application.

FIGURE 7: UM LUSA



FIGURE 8: APPLICATION OF UM LUSA



SOURCE: UMBELINO MONTEIRO S.A

The **UM Canudo** was inspired by the traditional type of roof tile, being part of Portuguese architecture. His production process meets all the quality parameters based on the latest technology combined with the best raw-materials. Nowadays, there is a great demand for the UM Canudo roof tiles. It is used in rehabilitation buildings and for new constructions. This roof tile comes in diverse colours and shades, as for example: Aged red, Sintra, Coimbra, red, Santa Catarina, Azores, Bussaco, Aged Sintra, Brown, Aged White, Transparent red, Black and Blue. In figure 9 we have an example of the roof tile Canudo. In figure 10, we Amendoeiras Golf that has UM Canudo roof tiles.

FIGURE 9: UM CANUDO



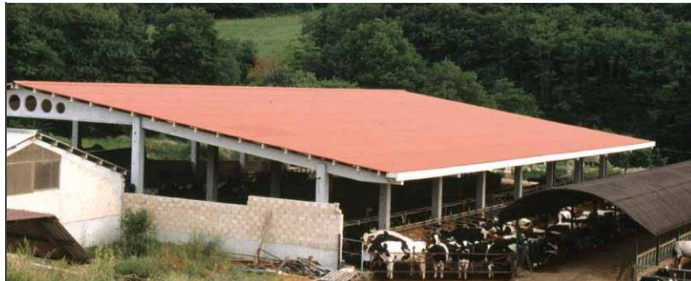
FIGURE 10: AMENDOEIRAS GOLF



SOURCE: UMBELINO MONTEIRO S.A

Lastly, the **fibrocement products** are free of asbestos or any other contaminating product. This product is 100% safe and effective, totally suitable for any type of covers. In figure 11 we can see the application of the fibrocement product.

FIGURE 11: APPLICATION OF FIBROCEMENT



SOURCE: UMBELINO MONTEIRO S.A

2.4. Mission, Values and Vision

Umbelino has for mission to offer their customers architectonic covering solutions which give them a great experience. They offer products that have higher standers of quality performance and sustainability. They are a profitable, social and environmental responsible company, capable of ensuring long term future.

Values are important for the company. Likewise, Umbelino values are:

- Appreciation of human capital;
- Hygiene and safety;
- Respect for the environment;
- Loyalty, integrity, ethics and innovation;
- Global quality;
- Internal and external customer satisfaction.

For vision, the company expects to create strong relations of confidence with the customers.

2.5. Market's Analysis

Since the 2007/2008 crisis, the industry of construction had a step back, that didn't help companies that depend of construction to sell, like Umbelino Monteiro. Umbelino Monteiro sells roof tiles and this is a saturated market, because in Portugal exist several companies.

In this topic, I am going to approach tree external connections to the company: customers, venders and competitors. For that the five forces of Porter is used.

FIGURE 12: FIVE FORCES OF PORTER



SOURCE: MINDTOOLS

The five forces of Porter, presented in figure 12, is normally used by companies to elaborate its strategy. Porter relates the average profitability of sector companies or industry the following forces: threat of new entry, competitive rivalry, supplier power, buyer power and threat of substitution.

Regarding the threat of **new entry** in Umbelino's industry is low, because to enter in a sector like this one, the company need to have capital to invest, the costs of entering are high, and this is a saturated market. Therefore, it will be hard for a new company to enter and gain customers.

About **competitive rivalry**, Umbelino have several competitors, but five are the most relevant, namely: CT Cobert S.A., Ceramic Sotelha, S.A., Onduline, S.A., CS – Coelho da Silva, S.A. and Ceramic Torreense LDA. Likewise, the competitive rivalry in this sector is high. Existing several competitors, customers have a more possibility to be influence by a rival price, which can cost the company customers. Also, the differentiation of the product is almost none, because we are talking about roof tiles. The difference will be the price, and that's why the competitive rivalry is high in the case of Umbelino Monteiro.

The **supplier power** is low, because there are several suppliers in the area, and Umbelino have their main product as well. Umbelino Monteiro has several partners, such as Sorgila, Corbário, among others.

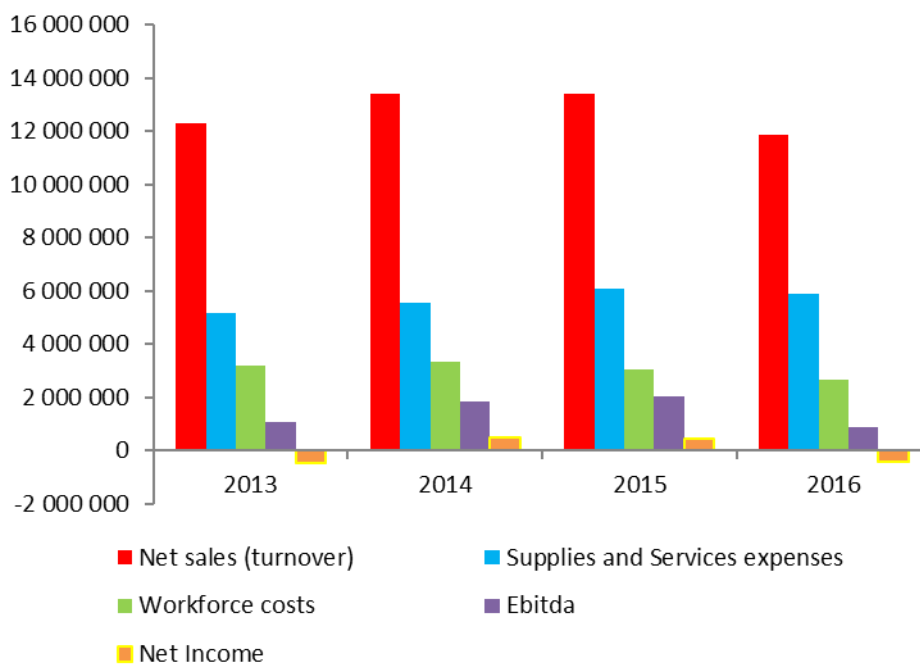
Regarding customers, the main customers are in the business area of construction. The **buyer power** is high, because as I mention before there are several competitors in the area, so customers can say that the competitor A give him better conditions, and will buy the product to that competitor if Umbelino doesn't give them better conditions. I can say that the buyer has a high power of negotiation. The high level of export of the company is due mainly a customer in Angola. However, to control the dependence on this customer, the company has been invested in the domestic market, where its range of customers has been increasing.

For last is **threat of substitution**. In this case the threat is low, because roof tile is hardly substituted.

2.6. Financial Data

In figure 13 are presented the more relevant financial information of Umbelino.

FIGURE 13: NET SALES VS SSE, WORKFORCE COSTS, EBITDA AND NET INCOME.



SOURCE: UMBELINO DATA

The higher **net sales** in the last years was 12.000.00 euros, although from 2015 to 2016 there was a small decrease, because Umbelino was exporting to Angola, and around 2015 the company started to have problems to receive their money. Banks in Angola didn't send the money to Portugal, even when clients already allowed the transfer, and thus the company stopped to send products to these customers.

Although not as relevant, the **workforce cost** represents the second largest expense that the company has in the income statement. Also, can see that the value is decreasing over the years. One reason was the closure of the services centre in Leiria, which lead to the cut of three employees and the transference of another one to Belgium.

Through the graphic we can see that from 2013 to 2014 and 2014 to 2015 the EBITDA (Earnings before interests, taxes, depreciations and amortizations) increased, but from 2015 to 2016 stated to decrease. This last decrease was because in 2016 Umbelino had to make 600.000 € of provisions regarding the bad debt, especially with the customers from Angola. This also explains why the **net income** values.

2.7. Swot Analysis

Swot analysis is a way to identify the strengths, opportunities, threats and weaknesses. This analysis helps the company to uncover opportunities that are well-placed to exploit. Also helps the company to realise their weaknesses and threats of their businesses, in a way that they will be able to manage and eliminated them.

In figure 14 is presented Umbelino Monteiro Swot analysis.

FIGURE 12: UMBELINO MONTEIRO SWOT ANALYSIS



In the slice of strengths, I looked to the internal perspective of the company and customers point of view. In the next slice, I have the opportunities, for this one I had in consideration the company strengths and see looking at what will be an opportunity for the company. Next, I have the slice of threats, for this one I had to look to the external factors. I analysed our competitors and the Portuguese economy. For last I have the slice with weaknesses, for this one I analysed what makes us vulnerable.

In figure 14, we can see that one of Umbelino weaknesses is outdated technology. Some machinery are the same since the company was founded. That technology is updated in a way that will be faster to produce the roof tile. Umbelino is developing a new product that will be different from the ones in the market. That is an opportunity for the company. Regarding strength, Umbelino provide good customer care. For that, Umbelino takes in considerations the customer need. One of Umbelino's biggest threats is the economic crisis, because since 2007/2008 Umbelino is suffering regarding that.

3. Internship

Since the begging, I was interest in doing internship at Umbelino Monteiro. I worked for the company before, but the central services in Leiria (that belong to Umbelino) closed. I decide to do the internship here because these company works with SAP R3, so I can obtain knowledge that will help me to enter in a working life.

Since I had already worked in Umbelino, my first day was normal because I already knew how the company worked, their aims, what they do, and what I was going to do.

During the twenty-eight weeks of curricular internship, (05.09.2016 to 05.02.2017) the activities were developed at the financial department. The person responsible for this department is Décio Reis. I also deal with some tasks in the commercial department, the person responsible for this department is Francisco Simões. Next, I will present each task developed and its procedures.

Organize Accounting Documents

My first task was organizing the accounting documents. Umbelino uses folders and digital. Umbelino created an email, where vendors send the invoices and credit notes, but just will be accepted the invoices/credit notes that are printed directly from an accounting program in PDF. If the vendors don't have this program that allows it, they must send it by mail.

When the invoices are coming by mail, we put a bar code and scanned them. After that they enter in Document Management system (DMS), where they will be accounted for. The one that the venders send by email will go to DMS immediately. After all this process, the one that are received by mail will be organized by the bar code and put in folders.

The DMS was a program that was created by Etex, to simplify the accountancy of the invoices.

Record of the Accounting Operations

Then I had to account all the invoices. For that I need to see if the service or material was delivered, if yes, I can account if not, no. In DMS there is approvers that need to see if all the invoices are correct, regarding price, quantities.

Each department is responsible for the vendors that supply them materials/services, so if the invoice is not correct according the negotiations, they can block it for accountancy or waiting for credit note.

One of my other task was to be accounted as technical complains, trade rebates, provision extra of energy, provision extra of gas and provision extra of maintenance.

Conference of Accounts and Analysis

I did analysis every week. The one that has higher priority is the customer's account, since Umbelino has a credit insurer and so it is important to see if there is any client that we need to report to the insurer. For these analyses, I used Bex Analyser. Bex Analyser is an analysis based reporting and designing tool embedded with Microsoft Excel. It is used for several analyses, such as, sales by country, age of debt and new products. Bex Analyser gives us a general view of the entire customer's account.

Also at the end of witch month we analyse some accounts that are more critical, such as, insurance and accruals. By transporting from the systems to Excel we can have a more useful view of the accounts and it is easier to analyse. If there is a need to correct, I will use a transaction if SAP to change what is necessary.

Preparation of Documentation for Tax Obligations

Regarding this topic, I helped to prepare the documentation to the corporate tax, by analysing every internal order and some accounts. With that information, I created an excel file that helped me to calculate the corporate tax. Also, I had the task to send the VAT every month by going to the financial portal I filled the form

My other task was sending the monthly statement of remuneration. For this task, I need it the green receipts to calculate the amount of IRS (internal revenue service) from the

green receipts. Also, if there were a pawn I had to organize the payment to the social security, by informing the person responsible for the payments.

Organize and Managed Ongoing Projects under European Incentives

Regarding ongoing projects under European incentives, Umbelino was trying to receive an extraordinary tax credit investment (ETCI) regarding assets investment in 2013.

To be eligible, the investment needs to be done between 1st of July and 31th of December 2013, the maximum of the investment is 5.000.000€ and deductible for corporate income tax for a period of 5 years (in case of poor collection in previous years).

I help to organize this process. One of my tasks was to give all the invoices from all our investments. For that I used our accounting system that allowed me to retract them. I also analysed the invoice to see if the investment was eligible.

Support to the Treasury Department

In Umbelino the treasury is kind tricky. Why I said that? Before the closer of the central service in Leiria, Umbelino had just one person for customers, so that person knew more deeply all the customer portfolio. That knowledge was lost in this transition.

In the treasury department, I had several tasks. The first one was to see if I cloud give credit to the customers. For that I need to see the current account in question and analyze it to see if I cloud give credit. In this analysis, I will see how many days they are paying the invoices, if there is any invoice that the deadline passes it or if our credit insurer gives it any credit per month. All these factors are important for my analysis.

This was one of the most relevant task I made. For this reason, I decide to analyze credit management theme (presented in the next chapter) in order to see what is done all over the world, compare it with what is done in Umbelino, and then give some feedback and suggestions to help the company to improve in this area.

My second task was, asking the clients to pay the invoices. For this task, I used Onguard. Onguard is software that helps to manage the credit. This software helps the company to have an individual view from each client, and more important, creates alerts that show us

if the invoice isn't paid and how many days already pass it from the payment deadline. With these alerts, we can send letters to the customers giving them a view of their statement. Umbelino have 3 types of letter, the first two are just informing that the invoices aren't paid, the third one we say to them if they don't pay we will repost to our credit insurer. My last task was to input all payments that came by check and make the deposit in the system using the transaction Electronic Bank Statement (FEBA).

Management Control

Regarding management control, every month I analyzed all cost centers where it will be compared to the budget. With this analysis, I will see if there is some variance between the budget and actual costs. In this type of analysis is where we realise some mistakes, sometimes there is a need to do reclassifications. Also, we can see if there is a saving in the cost center. When we have a saving normally we make an accrual, using this money for eventual projects.

Also, I accounted Travel. Travel is transaction on SAP where the commercials put their expenses and there is a need for control because they have limits for lunch and since they have the company credit card there is a need to control it monthly. When the travel expenses are accounted they go to their internal order, so we can see how much was spend.

In Santander platform, we can see where each commercial spends the money, help in us with the control of the accounts of each of them.

Support the Monthly Closures

This was one of my most complete tasks. The monthly closures in Umbelino have several steps. First, with the help of an Excel file that was created to help through this process I must do the insurance accounting. For this I used also an Excel file that has all the insurances. In here I can see how must will the insurances per month, with the help of the file I will count it in the right costs centres and internal orders. Second, I need to see if the ticket invoice is accounted. I also did an analysis of costs of goods sold and normally there is some amounts that aren't in the right account so with a help of Excel file I can see easily from each account I need to transfer.

I also see if our warehouse department did the Goods movement (Migo) for several invoices. Migo is when we receive the goods or when the services were made. After doing that, I will see if all the invoices that are needed for the closer of production are accounted, if not, I need to do a provision.

The group Etex send us every month a document when is written the information of the loans. With that information, I will update the Excel file. After having the amount of interest, I will account them and capitalize the one from the previous month.

Next, I need to see how the DMS is going. DMS is a platform where the vendor's invoices go, after being there they will be accounted. For that we need to be in consideration several points.

On the beginning of the year each department creates non-stock purchase request (YNB's) and Framework (FO'S). In them is the account of the service, cost centre/ internal order and the amount. After that will be created a purchased order that will be remitted to our vendors, all invoices that we received have this number that will help accounting.

Also, we need to have in attention the date that Migo was created. When we are closing the month, we can't account invoices if the Migo was made in the next month. After all this point and see if everything is good to account the invoices that are needed to close the month, my colleague closes the periods.

After closing the periods, we will see if there is a need for any rectifications. After seeing that is time to fill the reports in Cognos. Cognos is an enterprise platform for managing report that automates the creation of reports and dashboards. This platform helps the Etex group to see the month position.

What I do in Cognos? Normally I start to fill the E2 (income statement) report, this report is the income statement, after that I will do also the E3 (balance sheet), that one is the balance sheet, after that I have several to fill. All this work should be done at the sixth business days.

Support the Export Department

Regarding the export department, I had several tasks. First there is the customer order acceptance. Where there is a request from a foreign customer I had to make the registration on an Excel file, in this file there is several requests that need to be send by the customer, such as:

- Name of the customer;
- Country of destination;
- Description of the intended product;
- Quantity desired for purchase or coverage plan for quantification;
- Incoterms.

After this step, we created the proposal. When the client makes the request for proposal, he can also ask for prices free on board (FOB), cost & freight (C&F) or deliver from Umbelino Monteiro to the forwarder, according the description of incoterms 2000. The transport cost will ask to the logistics department. After having the cost of transportation, the proposal will be issued by the export responsible/ commercial assistant (ER/CA,) according the technical specification. Al the elements that are in the proposal should be conformed and validated by the ER.

If there is a need to a custom broker I will do the pro-forma invoice. After that the final one will be issue.

Follow the Foreign Markets

Regarding this task was to help my college to plan his business trips. In a way to extend our present in the foreign market, Umbelino has two people that meet it clients in a way to bring them into our business.

Umbelino is betting more and more in foreign market, so these trips are important to increase our sales. Also, one of my tasks regarding this topic was to send them samples to let them know our products.

Follow Ongoing Internationalization Projects

The company doesn't have ongoing projects, however has a contract with AICEP (agency for investment and foreign trade of Portugal), where they provide them with information regarding businesses contacts, data base from companies that sells roof tiles, in a way that Umbelino can presented their product.

My task regarding this topic was to analyze the market that we want to get in to it and ask for all the relevant information that we will need to make businesses.

Support in International Trade Banking Operations

This was one of the most complicated tasks. For international trade banking Umbelino have credit letters. The credit letters are a guarantee that the vender will receive the money. Since the bank crisis in Angola, Umbelino need it solution. If the customers have a credit letter we have and insurance that we are receiving the money, but for that we need to see how much the credit letter is. Imagine, if the credit letter is 100.000€ and the invoice is 150.000€, the bank will just pay us 100K, so Umbelino assumed a risk of 50.000€.

The biggest task that I had in this internship was credit management. So, since the crisis in Angola Umbelino had to be more careful with customers from Angola. What was my task, see if the customer have a credit letter, analyse it and see how much is the guarantee, if the order is the same value I can say to the commercial department to proceed, if the order is higher I will ask to my supervisor to see if I can give the say to my colleges to proceed.

We also have Bank Guarantees. A Bank Guarantee is a document issued by the bank, requested by the customer in favour of another beneficiary before which the bank assumes the obligation, under the guarantee text, to fulfil certain obligations if these are not fulfilled on time by the customer. Our customers from Angola are the ones that use the Bank Guarantee, it means if the guarantee is 100.000€, we know that if the customers don't pay us, the bank will pay us 100.000€, but imagine that the current account have 500.000€, the bank will just pay us 100.000€, the other 400.000€ that we sell to the customer was a risk that the company must assume. During my internship one of my tasks was to see if there was a need to activate the Bank Guarantee.

For last, Umbelino also have the credit insurer that has limits for domestic and foreign customers. They have a website where I took a list of the limits at the list is the customers that they give a specific amount or the ones that they give zero. The others I need to see if they have 3 positive experiences regarding payments. If they have, the customer will be covered by the anonymous that is 25.000€. My task was to do weekly analysis to see if there was a need to participate to the insurer, since we have a limited to do it. If we pass it, the insurer will pay the amount in debt.

Ensure the Good Environmental Practices

For Umbelino Monteiro SA, the role of security, health and quality of the environment is important. Every employee receives training one the first day. Umbelino is a certificated company.

Recently, Umbelino started a new project called 5'S. All companies that belong to Etex group should implement it. 5'S have five stages: the first stage is the sense of resource use. At this stage, we should see what we use, what we need. Sometimes I have things that I don't need that can be useful for some else.

The second stage is the sense of organization. In this stage, we should organize all departments, in a way that will be easier to work. Put every tool in the right place can facilitate our day to day. Next, we have the sense of cleaning: the less dirty is the work environment, better to work there. Next is the sense of standardization, this sense has to become part of the culture and values of the company. Normally in this sense the company creates rules in a way to keep everything organized and clean. For last we have the sense of discipline. The employees need to be educated to do 5'S has a task in day to day.

During this internship, I had two training sections. These sections help to maintain the factory clean and our workplace and so on. Since Umbelino is a certified company regarding the environment and safety I had to embrace these polices. Regarding this topic I had to do recycling, clean my workplace, respect the safety norms and use the safety equipment's.

4. Credit Management

Risk is presented in all types of business. There are several types of risk, such as, operational risk, financial risk and reputational risk. **Operational risk** results from internal failures, this means that people or systems fail unexpectedly. It also can result from external events, such as, a supplier falling to deliver goods (Drucker, 2017). The **financial risk** measures how the company is handling with their money. In the financial risk is where is present the credit to customers, and the debt load. It takes into account interest rates (Deloitte, 2017) . Lastly is the **reputational risk**, which presents the risk of losing reputations that can result from a product failure or lawsuits. In this type of risk, the social media have a lot of weight, because a bad review can damage a company reputation (Banco de Portugal, 2007). Business owners want to protect their operations to obtain more profit.

This chapter is about credit risk, one particular type of financial risk. **Credit risk** is represented by the probability of loss that the company can incur in case of business failure. Companies consider failure when customers don't fulfil their contract obligations regarding credit (Kollar, CESS 2014). For Spuchl'áková, Valasková, & Adamko (2015) credit risk is a risk that the company is willing to take to obtain more profit, but in some cases when the customers do their obligation and the company gets huge losses

Credit risk theme is not new, but has gained more and more importance every day, especially in recession periods. The 2007/2008 crisis had a big impact in the business world. Companies start to have a hard time, and their financial stability was damage. To solve that problem, companies thought that they need to find a way to sell more (Gameiro, Soares, & Sousa, 2011).

Companies' main aim is profit. To achieve it the company should produce more to reduce costs, especially fixed costs and to obtain a higher profit. The company also needs to sell more. One way to increase sales is given more credit to customers. As a consequence, the rubric account receivables increase, but that will not mean that the company have free cash flow, now or in the future (Siekelova, Kollar, & Weissova, 2015). Sometimes the company finds it difficult to receive payment from customers. Therefore, companies are dealing with credit risk every day (Brealey, Myers, & Allen, 2008).

Credit can be used as a competitive advantage. When a product is similar from those of competitors, a more attractive credit policy can be beneficial to gain more customers. Therefore, the commercial department needs to understand competitors to take advantages from them (Batista, 2004).

To avoid credit risk, companies need to manage their credit. **Credit management** is a way to manage credit sales where the company will reduce the credit risk. According to Brealey, Myers & Allen (2008), to managing credits managers need to take into consideration five steps:

- Establish the length of the payment period and size of any cash discount who pay promptly;
- Decide the form of contract with the customer;
- Control of the credit to customers;
- Establish reasonable credit limits;
- Collect.

Regarding credit management, when companies want to give credit to their customers, they need consider the previous five steps that were mentions before, to have a more successful credit management. Granting credit is something that is different from company to company. Each of them have their one way to analyse and grant credit. Moreover, the credit granted is different from customer to customer. It will depend of several things, such as, guaranties, credit insurance, history and financial statements (Batista, 2004).

At first, the company need to see how many days they will give to the customer to pay their invoices. In a way to encourage customers to pay before the due date, companies give them incentives, such as, commercial or financial discount (Brealey, Myers, & Allen, 2008). A financial discount has a specific rule behind it, a rule of accomplish a deadline or a subscription, with that companies can have less problems regarding finance liquidity. For the other hand, the commercial discount, also known by unconditional discount, doesn't depend of a future condition. It can be granted by the salesman or the customer. That discount will focus in the price of the products or services (administradores, 2017).

After that, the company will see if a contract will be need it. Next, the company will analyse to see how much credit it will be given to that customer. Lastly, the company need to stablish the collect part, how they will do if the invoices became due (Brealey, Myers, & Allen, 2008).

Although not all sales involve credit. There are customers that companies don't allow them credit, because is an irregular customer, and the company can demand cash on delivery (Brealey, Myers e Allen, 2008). Moreover, some industries don't grand credit. According to Banco de Portugal, these industries are: education, accommodation, catering and similar, and real estate (Portugal, BPstart, 2017).

To reduce credit risks, companies need to have a good credit policy. This topic will be explained in the next chapter.

4.1 Credit Policies

Credit policies can define as a set of rules or criteria that the company uses to finance their customers (Batista, 2004). Every company need to develop their one credit policies, in a way to balance their sales needs and risk decreasing. According to Batista (2004), companies use credit grating as a short-term investment, but that can lead to high risks. In these situations, companies will implement their credit policies to reduce risks.

Credit granting conditions are agreed between the company and the customer. It will be at that time that the financial and commercial departments will present the company's conditions to the customer. As a consequence, is established the time granted for the payment, the commercial and/or financial discounts, and other agreements (Batista, 2004). The risk that the company will occur will be the probability of a non-fulfilment of that agreements.

Credit policies can solve some of the credit problems in a company, but is not enough to reduce the risk regarding credit. The company needs to be prepared for unexpected situations. According to Batista (2004) all department should be involved in their credit policies, in order to reduce the risk of credit.

When a company is developing a credit policy need to take into account some internal and external factors. Regarding the **internal factors**, the company need to consider the sales conditions, credit valuation and billing policy. Sales conditions, is the way that companies sell their products/services. For each customer, the company should define the maximum value of credit that they want to grant to each customer. The company should also stablish the payment time. Regarding credit valuation, the company need to create systems that allow them to analyse the risk of each customer. Taking into account billing policy, the company should have a credit team, that will analyse which customers don't pay their invoices (Ross, Westerfield, & Jaff, 2002).

The **external factors** are related with industries' price policies, competition, country's economic stability, among others (Batista, 2004). For instance, the financial turbulence in 2007/2008 create some instability to companies (Gameiro, Soares, & Sousa, 2011). These financial problems were greater for companies that had businesses with Angola. The Angolan government didn't allowed money to go out from the country, even when customers allowed the transfers to the companies that where stated in Portugal (Roberto, 2017). As a consequence, companies lost money, making it difficult to pay their debt.

In 2012 the insolvencies in Portugal were 6.688, that represented a growth of 41% regarding the previous year (Noticias, 2017). Companies were facing financial problems, because of this crisis, and because their customers didn't know how to pay their debt. After all this events companies start to protect them self's. According to Batista (2004) there are three basic credit policies that companies can adopt, some of them take more risk than others. First is the **restrictive credit policy**. This policy is characterized as a non-risk taken, because companies don't open customers' accounts without having relevant information. To open a new customer account the company will see if it will be risky or not (Batista, 2004). This type of policy occurs in companies that don't have ambition to growth. Normally companies that adopt this policy are small-sized companies that have their finances in order, without needing bank financing. Having a low growth rate is a disadvantage in a company, it can damage their image in the market, because in the same market there are some companies that have similar products and better credit conditions. A restrictive credit policy can be considered wrong when the company's survival is in in risk (Batista, 2004). This type of policy is used in small businesses and in companies that operate in a market niche.

Next is the **moderate credit policy**. Companies that have this policy take more risk than the previous credit policy. Although, when the company thinks that is taking unnecessary risks, it can adopt sometimes the restricted policy. One of the biggest difference from the previous credit policy is the fact that in this case companies want to grow and for that they are willing to take more risks (Batista, 2004). Financially speaking, companies that adopt this policy can have some financial stress that the ones that receive in cash. However, the investment by having a good account receivable can give the company a strong position and stability in the market. This type of policy is the one that have more followers in the business world, because companies take some risk and can give more advantages to their customers and if the customer don't pay the invoices they can take a more restrictive policy. This reason explains the policy name: moderate.

For last is the **liberal credit policy**. Companies that adopt this policy take a lot of risks. They want to have a strong position in the market and for that they are willing to grant credit to obtain more customers (Batista, 2004). However, customers can take advantage of this policy to obtain more credit, which can be a problem in long term regarding the payment. In case of good payment, the company will not have problems, but in case of a non-payment, the company will have losses. The higher the risk, the higher the reward, but it can work in both ways, higher the risk higher the losses. A liberal policy is a more temporary policy, over the company will have the need to change to a moderate policy.

All these three types of credit policies have their advantages or disadvantages. There is not an optimal one. Although, in my opinion, the moderate credit policy is the best, because companies that adopt this policy are willing to take risk, but not unnecessary risks. It means that if the company think that for a special customer, they will be able to take more risk, because in short-term they will buy more, the company will be willing to take more risks. For the other hand, if the company sees that a special customer is take a lot of time to pay the invoices, the company to reduce the risk will adopt a more restrictive policy

4.2 Credit Limit

In order to exist a good credit management, there is a need to establish credit limits for each customer. These limits are not stable over the time. The company must review the customer's information time to time, because its financial position can change. Therefore, the company must analyse if the established limit is accurate or no. In order to achieve it, the company must evaluate the customer's finance, ask for their bank statements, commercial conduct in the market, credit scoring, among others (Batista, 2004). This information can be obtained from the customer or other companies. A customer that provides all information to the company is seen with different eyes, because he gives confidence to concede more credit.

The process for granting credit depends on the customer. This is made with the probability that a customer will pay their debts. For existence customers, companies can see the previous payments that were made before, and can create a timeline and see how many days the customer took to pay the invoices. For the other hand, for new customers, companies need to use a different approach (Brealey, Myers, & Allen, 2008).

Credit concession is highly influenced by the customer's financial condition. A customer that have weak financial capacity, will have a credit limit lower than a customer that have a strong financial capacity (Batista, 2004). Moreover, it is also influenced by the billing efforts applied to past due invoices. The lack of payment, can give the company a reason to analyse the credit limit. For example, if the customer's financial situation changed in the last year, the credit department can reduce their credit line. If after reducing the credit line, the customer continues to struggle and the payments start to be delayed, the credit department can justify to the customer that they will not have credit.

Credit limits are a guideline for orders approval. It can exist two situations, the first situation is when the orders don't exceed the customer credit limit and the other is when the credit limit is exceed. For example: customer A has 10000€ of credit limit, and he put an order with the amount of 2000€. That order will not exceed the customer credit limit, but that doesn't mean that he can collect the material. The company need to see how much the customer have in his account, and if the sum of the amount with the one in his account is less or the same than 10000€ the company can release the order, if it exceed

the order will not be release. All these cases need to be analysed, some in a different way, but what the company needs to consider is the one that will be less risky (Batista, 2004).

To establish credit limits, the company should have sufficient personal with qualifications for it. Without a good credit department is hard to analyse all these situations, special in big companies that have a vast customer portfolio (Batista, 2004).

4.3 Credit Information

As explained before, to give credit the company must collect relevant information about the customers and establish a relationship with them (Tsuruta, 2013). This information can be obtained from the customer or from specialized companies in credit information. Recent and reliable the information makes it easier to take decisions (Batista, 2004).

The sellers are the first contact between the customer and the company. Establishing a friendship connection is an advantage for the company due to the mutual respect. The direct contact can give more opportunities for the sellers to stablish some sale condition. Although, for another side, a close relationship can be a way to barging for a higher credit limit, increasing the company's risk (Tsuruta, 2013).

Companies can use customer's financial statements to make their own decisions or they can use specialized companies that provide financial statements and reports. In this way, the financial ratios are important instruments, that allows to evaluate the payments conditions by customers (Brealey, Myers, & Allen, 2008).

The ability of credit investigations can be detailed from companies outside the organization, such as, Atradius, Informa D&B and Cosec. These types of investigation can be less expensive to the organization than specialized personal. Moreover, the information provide may be more complete, since the reports of these companies have both financial and commercial analyses, and other historical elements that can be important.

These organizations that were mention above, will be presented next.

Informa D&B

Informa D&B is leader in the market regarding information. The company belongs to the Spanish Informa D&B S.A which belongs to the group CESCE. Its main activity is to collect economic and financial information's that makes them experts regarding credit risk. Its data base is one of the most used in the country. At this moment they have around 548 thousand users, and have information of more than 1.6 million business entities (Informa D&B(1a), 2017).

To get the information, the company needs a user and a password. After that, to obtain the searching company (customer), the company uses its taxpayer number. Finally, they will obtain the report (Informa D&B(1b), 2017). The following figure 15 shows the look of the report.

FIGURE 15: FINANCIAL REPORT



SOURCE: INFORMA D&B

For the credit analyses, the rubric that is most important is the monthly credit limit. In that rubric, the company can see what Informa D&B recommends. There are two

scenarios: 1) Informa D&B can say that they don't recommend credit, 2) they can say that the customer can have, for example, 25.000€ of credit per month. This is one of the most important tools that a company can use.

Atradius

Atradius is a company that have more than 90 years of experience in credit insurance. It was found in the Netherlands in 1925. At first was just operating in Germany, but with the necessity of their services the company have internationalized to other countries. Their focus is in credit insurance and now is the dominant credit insurer in the Iberian Peninsula (Atradius, 2017).

Atradius main aim is to help companies to protect themselves from losses caused by customer's failure to pay an invoice through insolvency, or to pay under the established terms. A company that have a covenant with Atradius can enjoy a variety of benefits, such as: 1) increase access to finance, because Atradius can provide information to the company bank, in order for them to give more credit, 2) have a competitive advantage by identifying opportunities as well as risks, 3) reduce the bad debt, and 4) find new markets or customers. They operate with just one policy, Modula that allows to cover several customers and markets (Atradius, 2017).

In this database, the company can find how much a customer is insured by Atradius. If the customer is not in the database, the company can ask about a credit check to see how much they can grant. There is anonymous policy. If the customers have two positive experiences in a year, Atradius can grant him 25.000€ (Monteiro, 2017). Companies that have an insurance like Atradius tent to have less losses, but all these procedures need time and analyses.

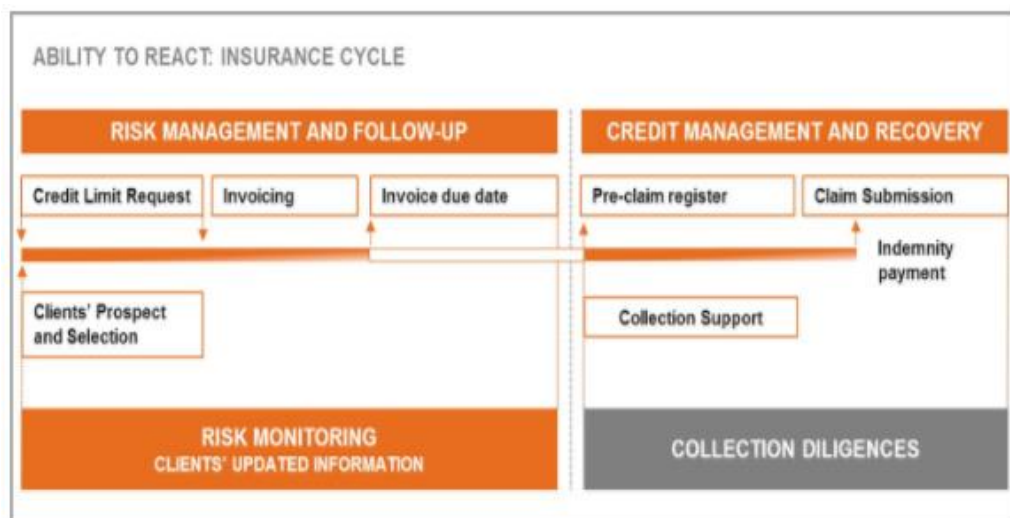
Cosec

Cosec is a credit insurance company that is leader in Portugal since 1969. They offer credit solutions and control in both internal and external. They cover investment risks in political risk countries. Credit insurance provides a safety for many countries. It helps to

coverage against non-payments for credit sales, in Portugal or abroad, until the limits that Cosec granted to the payers (Cosec, 2017).

Each company requires a policy. For example, imagine that Umbelino have 5 companies, Cosec will require 5 credit policies. In figure 16, we can see how the procedure works. First, the company will send the customer’s statement, and ask for a credit limit. In that moment, the company will fulfil all the requests on the following figure. After Cosec will analyse and see if the credit will be granted.

FIGURE 16: COSEC’S INSURANCE CYCLE



SOURCE: COSEC

After Cosec give the guarantee of credit the company will sell the products to the customer.

4.4 Credit Risk Model’s

Companies are vulnerable against credit risk and are with problems regarding bad debt. Likewise, companies need to improve their credit risk’ models. There are some credit

models, called as hybrid models, that help companies and banks to measure the potential loss that a credit exposurer can't offer (Klieštík & Cúg, 2015)

One is the **Merton Model**. Merton model uses data from the stock market instead of the company's financial data that is used to assess the credit risk of the company loan and individual holdings. The model allows an easier valuation of the company, and helps to analyse and verify the company's ability to retain solvency, by analysing debt totals. It also can be used to expect future developments (Misankova, Kocisova, Frajtova-Michalíkova, & Adamko, 2014). According to Kocisova & Misankova (2014) the assumptions of this model hardly reflect the real world, because this model focuses more in future experience, and are the previous experiences that shows if the company will have troubles to pay in the future.

The **Credit Metrics** model, created by the JP Morgan in 1977, measures the credit risk in a portfolio context (Boris, Ivana, & Anna, 2015). This model is appropriate to all the types of financial instruments. According to Jorion (2006) the model is used has a valuation of bond prices. It consists in four parts. The first part is called Value at Risk due to credit. In here will be analyse the risk of an individual bond by using standard deviation and percentiles. The second part is called as Portfolio Value at Risk due to Credit. In here it will identify the credit risk of a portfolio. After there is the third called Correlation and fourth part called Exposures, these two parts together reflect the risk of an entire portfolio. The third part considers the cross-correlation values of the current bond prices. In case of an increase of the bonds, the risk should decrease. For last, the fourth part analyses the credit risk of those instruments, whose value have a sensibility to changes in the market values (Boris, Ivana, & Anna, 2015). This model values a single bond or a portfolio in a period that helps to express credit risk. Companies consider this model not only by default, but also by the risk of changes in bond prices (Boris, Ivana, & Anna, 2015).

There is also **CreditRisk+**, which is more used for insurance problems, for meddling credit risk. Default is a factor that influence credit risk in several ways. This model is different from the previous ones, because does not require any assumptions about the cases of default and consider the rise of risk (Mun, 2004). CreditRisk+ is known as an attractive model in terms of calculation, because only requires a few inputs. This model doesn't consider the market risk of the defaulter, and that is a disadvantage thought other models.

For last, is **Credit Grades** that was created to show transparency, consistent, and accuracy. This model has a big range of publicly-tradable firms to quantify their individual risk. Credit Grades on contrary to Credit Metrics quantifies as an individual financial instrument (Kočišová & Mišanková, 2014). According to Bod'a & Kanderová (2010), Credit Grades have an extensive database of default companies. The data that is used in this model is based in the observation of the market. For that reason, this model captures the market dynamics, something that other models don't. By analysing the credit spreads, we can monitor the evolutions of the risk of a company. If the credit spread increases, the risk of the company also increases.

4.5 Financial Analysis

Credit risk is one of the companies' major threats, so it is essential to have access to the risk probability. Credit risk companies can use financial ratios to see if the customer in question will bring risk to the company or not (Boguslauskas, Mileris, & Adlytė, 2011).

Liquidity ratios measure the level of the company's liquidity, it means, the ability to accomplish the short-term commitments. Better liquidity rank indicates that the company has more ability to satisfy their commitments (Batista, 2004). Liquidity ratios is composed by current liquidity ratio, quick liquidity ratio, cash liquidity ratio, net-working capital, operating profit quality, net income quality, efficiency in collecting receivables. The ratio that highlights in this case is the current liquidity ratio (current assets divided by current liabilities) that measures the company's ability to pay short-term and long-term obligations. The higher the amount the current ratio, the higher is the protection from the creditor in short-term. A lower ratio suggests that the company is falling into insolvency (Petroska-Angelovska & Ackovska, 2016).

Profitability ratios measure profit through the financial recourse. The principle of profitability is to obtain the maximum profit with less used of resources. Profitability ratios can be measure by business indicators that show the financial health of a company (Brealey, Myers, & Allen, 2008). The return on Assets (ROA, net profit divided by total assets) shows the profitability of total assets. A higher ROA means that the company is

efficient. The investments that were made are generating positive results, although it also can mean that the company is close to its maximum capacity. The return of equity (ROE, net profit divided by total equity) shows how companies use shareholders' investments to generate earnings. ROE measures the company profitability by saying how much profit the company is generating with the money that was invested on it. The indicator should be positive and higher.

The receivables turnover (net credit sales divided by average accounts receivables) shows how many days customers are paying their invoices. It allows to see if the customer is quick to pay or no (Brealey, Myers, & Allen, 2008). The high ratio indicates that the company is receiving their payments late. Therefore, if the company has a low ratio it can mean that has an efficient credit department. The days payable outstanding (DPO, (average accounts payables divided by cost of goods sold and multiplied by 365 days) shows the average of days the company is paying to their suppliers. Normally this indicator has a higher number then the receivables. The higher the ratio, the better credit terms the company gets from its suppliers (Brealey, Myers, & Allen, 2008).

There are also the ratios of financial autonomy (total equity divided by tTotal assets). This ratio shows the ability of a company to finance their assets through equity without occurring to loans. A low value of this ratio indicates that the company is mostly financed by loans. A lower ratio doesn't mean that the company has financial difficulties, because this ratio can't be analysed alone but with other ratios, such as, DPO, receivables turnover, and others. The higher the degree of financial autonomy, the greater will be the degree of solvency, since the company as a higher ability to accomplish their long-term obligations (Brealey, Myers, & Allen, 2008).

The solvency ratio($(\text{Net Income} + \text{Depreciation}) / (\text{Short-Term Liabilities} + \text{Long-Term Liabilities})$) measures the company ability to meet its debt and other obligations, is related with financial autonomy, equity and long-term liabilities. In case a low value, it indicates that the company is financial vulnerable, but in case of a high value it indicates that the company have financial stability (Petroska-Angelovska & Ackovska, 2016).

Even though these ratios are important for grating credit, it's important to have in mind that it is hard to ensure the rigor of this indicators, because companies can present their accounting data different, based in different criteria, as for example the valorisation of inventories or amortization/depreciation (Batista, 2004). However, there are a need to

take precaution with this analysis, because it can exist some external factors that the company can't control. There is a need to combine other data to achieve a more precisely information (Batista, 2004).

4.6 Bad Debt

Since 2007/2008 crisis, companies are struggling with bad debt. That occurred because customers didn't had money to pay. The best strategy to manage bad debt in the first place is to avoid it. For that, the company have the need develop clear policies and have personal to collect the payments (Albright, 2017).

According to Batista (2004) the company need to be informed about collections efficiencies. The credit manager needs to inform the administrations about the results and actions that were made regarding bad debt. An important tool for this analyse is the map of age of debt. In this map the companies have whole picture regarding the bad debt. The map has the amount that was invoiced, the invoices that are not due, the ones that are due from 1 to 30 days, from 31 to 60, from 61 to 90 and more then 90. The age of debt gives a monthly picture that allows the company to understand their situation (Batista, 2004).

4.7 Credit Management in Umbelino Monteiro

During my internship at Umbelino Monteiro SA I lead with credit management. It was one of the most relevant tasks, which consumes more time of the internship.

Since the crises that occurred in Portugal in 2007/2008, companies suffer losses related to this issue. Umbelino was not an exception. Umbelino granted credit to some customers that with the crisis didn't survive. It was created a vicious circle. For example, the most important customer of Umbelino had a problem with a customer that hadn't pay to them,

and as a consequence Umbelino also suffered. To prevent this problem, Umbelino had changed some credit policies, due to the change of the country reality.

Credit Policies

Umbelino was adopting a liberal credit policy in the past. Although some customers start not paying their debts, leading to a high bad debt. With the 2007/2008 crisis Umbelino has review their credit policy, changing it to a more moderate credit policy. For that Umbelino had to adapt their credit policies.

The credit policies in Umbelino are, when a customer wants to open an account that must be requested and will always be dependent on the approval of the financial department. If the payment is to be received up to 14 days from the invoice date, the client will receive a 3,5% discount, if is 28 days the discount will be 2,5%, and more the 56 days the client will not receive any discount. In a way to captivate customers, if they use direct debit, Umbelino gives a bonus of more 1% discount.

In case of non-fulfilment of the agreement, the customer will lose the financial discount, and its supplies will be suspense until the full settlement of the existing debt, as well as the interest payment to the legal fee. In case of grating credit, Umbelino grants the credit internally, and may or not may be communicated to the customer. Also, all deliveries will be suspended to customers whose liability values exceed the establish limits or exceed the stipulated payment deadlines.

Regarding credit policies, in Umbelino are stablished thought the financial department. The director of the financial department dived different tasks to obtain more results. For that all departments need to collaborate in several ways.

Credit Limit

Umbelino has at this moment just one person to deal with credit limit. The company just created a credit committee, where they decide to give a higher, lower or maintain the customer credit limit. Regarding this part, I had special roll during the internship. As I said before, in the financial department exist two employees and before the company had six, with few time to analyse everything, leading to a negative impact in customers' credit limits. During the internship I used Atradius to see if the customer was mention in the

policy and if the insurer gave them credit limit. In case that the customer is not mention in Atradius, I need to see if the customer had two positive experiences in a year, if yes Umbelino can grant 25000€ (anonymous policy), if not I need to see in Informa D&B.

Credit Information

To establish credit policies, Umbelino have two different procedures. The first one can involve two different situations, but booth have the same credit policies. Umbelino has a lot of customers in their database, and that can create some confusions when there is a need to make analyses. Therefore, a monthly analysis is made to see which customers haven't bought for over a year. These customers are blocked by the financial department, and in case they decided to buy again the commercial department will ask the financial department to unblock them, and the credit policies that will be implement will be the same as if these customers are a new customer.

To establish credit policies for new and unblock customers, Umbelino goes to the website of Informa D&B to see the recommended monthly credit limit. After that, if is a new customer the commercial department will stablish with the customer the payment method and days that they want to pay the invoices. For the block customers, if the customer is not recommended for credit by Informa D&B, the customer will pay in advance and Umbelino will review the previous credit policies, in case of a positive information about the customer, Umbelino will re-establish the previous credit policies.

The second procedure involves customers that are at Umbelino's portfolio for years. To analyse theses customers, Umbelino require to Atradius, Cosec and/or Informa B&D information to analyse their credit policies.

- Informa D&B

Umbelino has a covenant with Informa D&B to extract some reports. Informa D&B works with unities, so Umbelino gets several units per month to extract information. The reports are characterized with different units, but for the company the financial report have the necessary information.

One of my contribute to Umbelino was to help analysing all credit limits. Although Umbelino had a covenant with Inform D&B, they didn't use it often, and the credit information wasn't updated. As a consequence, Umbelino was taking an unnecessary risk because they didn't had people to analyse this issue. I have collect a lot of information that helped to update all of them.

- Atradius

Umbelino has already some of their customers in Atradius database. If they say that they will cover until 300.000€ for the customer A, Umbelino can invoice the customer that amount, but they need to be careful. For example, imagine that customer A have three invoices in their account, but they decide to buy more product, and at that time the first invoice is already due. If Umbelino gives the customer credit and after that the customer doesn't pay any of them, Atradius will not cover, because one of it was already due. Although if at the time they bought more and none of it was due, than Atradius will cover. When I started my internship, the credit department was having some problems. Atradius gave to Umbelino a policy with soma of Umbelino customers with credit limits. With that policy I analyse all the customer's account and updated all the information in the system.

- Cosec

In Umbelino occurred two different situations. If customers gave authorizations to their bank to transfer the money to Umbelino, but the bank didn't allow, in that case, instead of triggering the insurance, the company will ask for a 60 days extension, because the customer really want to pay. Although, if the problem will be consistence, the will trigger the insurance. The second situation happens when the customer doesn't have the money to pay the invoices. On that case the company will trigger the insurance to receive the money for Cosec. Regarding Cosec, I help the company to collect all the necessary information about two companies in Angola in order to Umbelino get the same amount that the customers had in debt.

Credit Risk Model

Umbelino works with different markets, especially the domestic market and Angola. At this moment the company doesn't have enough personal in the financial department, which is a limitation to manage credit. Using one of the presented models in the literature review will help Umbelino to prevent risk. After this analyse one of the models that in my opinion will be an advantage for the company is the Credit Grades, because this model quantifies the individual risk of companies and captures the market dynamics.

Bad Debt

Umbelino is struggling with bad debt. That occurred because customers didn't had money to pay the invoices and Umbelino didn't had enough personal to analyse the market changes. Customers that were Umbelino top one start to struggle and the company didn't notice. In 2016 Umbelino had a service centre that did the accounting of companies that were in Portugal and in Spain that belong to the same group. In that centre, there was one person for customers, which made it easier to deal with bad debt. However nowadays the company have just one person to deal with legal situations, customers, venders, and other staffs.

To deal with this issue the company do a monthly analysis using BexAnalyser, to obtain an age of debt from all the customers. An example is shown in figure 17.

FIGURE 17 AGE OF DEBT

	Balance	Not Overdue	0 - 30 Days	31 - 60 days	61 - 90 Days	More then 90 days
	EUR	EUR	EUR	EUR	EUR	EUR
Customer A	515 399,28			28 277,85		487 121,43
Customer B	198 429,04					198 429,04
Customer C	71 203,37					71 316,35
Customer D	312 634,45	104 429,21	51 747,36	33 266,16	14 784,96	168 762,40
Customer E	131 019,32			415,50	17 660,02	169 064,05
Customer F	44 749,05			7 923,74		36 825
Customer G	207 856,83	88 395,81	54 692,82	55 998,17	9 058,80	-288,77
Customer H	157 091,77	60 535,00	96 555,72	1,05		0,00
Customer I	185 022,54		185 022,54	0,00	0,00	0,00
	3 758 412,32	1 660 193,83	475 535,97	255 823,69	44 454,34	1 088 086,08

SOURCE: UMBELINO DATA

This map helps the company to see if there is a need to trigger the insurance company or not, and the customers that they need to act quickly. Even if this map is a help, in my point of view, Umbelino need more than that to solve this problem.

Critical Analysis and Suggestions

Umbelino is a multinational company connected to construction sector. With the restructuring that Umbelino suffered in 2016, the financial department passed from six persons to just two. The company has a good credit policy, but doesn't have enough people to implement it, because the existing ones haven't enough time to see if the invoices are overdue, or if they will be soon.

As a suggestion, I think the company should hire a third person that will help in granted credit, since various analyses should be done to see the customer behaviour during the year. This will give the company a better treasury, and over time will reduce the bad credit, that is high at this moment.

Regarding collecting information, the company always had a covenant with Informa D&B, however the company didn't use it regularly. The company didn't used all the resources that they had to obtain better information. To improve that, Umbelino needs to use all the information that they can obtain to have a better analyse regarding credit management. As I mention before, there are some credit risks models, that Umbelino doesn't use, and in my opinion it will help to obtain an individual analysis of each customer.

Regarding credit management, Umbelino still have a long way in front of them, I think that they can take some of my suggestions, in order to improve this subject.

5. Conclusion

I worked at Umbelino before the internship, but I have never performed none of this takes when I was an employee. This internship allowed me to develop tasks in different departments, namely financial and commercial departments. This internship was a challenge for me because I understood the importance of correctly analyse credit policies, to understand the customer behaviour, and other. I had contact with several people that made me understand the importance of working has a team, to understand the work of each department, and how important is communication. I gave all my best at this internship, I developed important task that allowed me to value my work.

One of the tasks I invest more time in was Umbelino's credit management. This was the topic chosen for a deeper analyse in this report. The existence and the greetings of a credit policy is fundamental to evaluate the company's behaviour in the market and its risk. Companies are struggle with customers' bad debt. This problem can come from the absence of good credit policies and enough personal for this analysis.

Sometimes, it is complicated for a company to stablish the right credit policy, because there are some factors that the company may not have sufficient information, namely about the industry where the company operates, the position that have in the market, type of customers, the geographic area and sometimes the knowledge of the competitor payment practices. Likewise, it is important that all company have the knowledge of their credit policies, in a way to minimize or reduce all these insufficiencies.

Some companies when grant credit to customers don't take into to account the cost of the granted credit. The absence of control of financial resources that increases the products' final price or the ability of grant credit, need to be taken into account. That's why the financial ratios are important to this analyse of granted credit.

Regarding grating credit, Umbelino have the right information, to make all the analyses that they need, but not always used it. They can also use some credit risk models to analyse the customer risk. To surpass these problems, I recommend Umbelino to hire more personal to the financial department to reduce their risk of granting credit.

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