Kirit Patel

CEO

day lewis

Day Lewis Group is the UK's largest independent pharmacy chain owning and managing over 200 pharmacies across the country. These outlets are predominantly based in local community and secondary high street locations. Throughout its 38-year history, Day Lewis has been developing from a traditional retail pharmacy business into a patient-orientated service provider, dispensing pharmaceutical and other retail products, providing a diverse range of clinical services to its customers.

Problem...

Day Lewis needed capital in order to expand its store base. As a supplier of pharmaceutical products to the NHS, the company joined a supply chain finance (SCF) scheme provided by Citi which allowed it to unlock credit and boost its working capital at a much lower cost.

Day Lewis has over 205 pharmaceutical outlets in the UK, each providing prescription medicines to NHS patients. The company then invoices the Department of Health (DoH) which reimburses the company on average 36 days later.

In the aftermath of the credit crisis, Day Lewis' banking partners imposed a working capital covenant on the business, presenting it with a significant challenge. Making internal improvements to its working capital management was not easy: one problem was that the NHS does not reimburse pharmacy the VAT paid by the contractors for customer prescriptions on time, obliging it to claim it back through a separate and lengthy accounting process with HM Customs and Excise.

Affordable bank finance might have provided the business with some respite, but with a lack of liquidity in the market place, the company found the cost of borrowing prohibitively expensive. The credit rating of its NHS debtor, because of the absence of documentary evidence, was not taken into account by the bank, making the interest rate payable much higher. Under these conditions, finding the required capital to follow through on its plans to open new stores and grow the business became increasingly challenging.

...Solved

Day Lewis considered selling its NHS debt to a third party, but found the rates on offer too steep to provide a sustainable solution to the problem. Then the company heard about the SCF solution provided by Citi on behalf of HM Government. Through this solution, Day Lewis secured cheap invoice finance based on the NHS's credit rating. This meant Day Lewis not only received payment for its prescription invoices a month earlier, but the cost of borrowing was significantly cheaper than options explored previously.

Kirit Patel, the company's CEO, admits he was surprised at how straightforward the process proved. Besides a few minor formalities concerning its syndicated borrowing facility, the company faced few legal obstacles to its participation in the scheme. As soon as Citi had spoken to the syndicated banks on Day Lewis' behalf to explain the terms of the arrangement, the company was given the go-ahead.

"The only reservation I could think of at the time was that it seemed to be too good to be true," Patel recalls. "But we investigated it and we had high-level meetings – and there was really no catch." Following uptake of the Citi solution, the company's balance sheet was transformed, almost overnight. In addition to a substantial saving of £200,000 in interest costs, Day Lewis was able to reduce its overdraft. In turn, it also received a sum of £6.5m back for capital expenditure.

That money will now be used to expand the Day Lewis store base. "We have freed up working capital and acquired capital expenditure to increase the number of shops," says Patel. "It was a Downing Street scheme to free up working capital for capital expenditure. Now, that is exactly what we are going to be doing – spending more money on new stores and freeing up cash in the economy." ■