



Financing Options for Working Capital and Capital Expenditure

Cash flow is the lifeblood of any business. Even profitable companies may face financial distress if liquidity is not well managed. Fortunately, businesses today have access to a range of financing tools—both for working capital and capital expenditure (CAPEX)—to support day-to-day operations and long-term investments.

Working Capital Financing

Effective working capital financing depends on aligning funding options with the company's cash flow cycle, business model, and risk appetite. Common options include:

1. **Line of Credit**

A flexible facility suitable for short-term working capital needs. Interest is charged only on the drawn amount, though borrowers must manage interest rate volatility and facility renewal risk.

2. **Short-Term Loan**

Typically used to address seasonal cash flow gaps or urgent funding needs. These loans are often structured with fixed terms and predictable repayments.

3. Overdraft Facility

Enables businesses to withdraw beyond their bank balance for emergency liquidity. While convenient, it usually comes with higher interest rates and limited credit limits.

4. Invoice Factoring

Suitable for B2B companies with sizable accounts receivable. It allows early access to cash by selling invoices to a financier, though fees and potential impact on customer relationships should be considered.

5. Supply Chain Financing (Reverse Factoring)

Often used by large corporates with strong credit profiles. It helps suppliers receive early payment while allowing the buyer to extend payment terms.

6. Merchant Cash Advance

Designed for businesses with steady credit/debit card sales (e.g., retailers). This offers quick access to funds, repaid as a percentage of future sales. However, costs are typically high and repayments occur daily.

CAPEX Financing

CAPEX financing involves longer-term investments and should be matched with funding options that balance asset control, cost efficiency, and financial structure. Key alternatives include:

7. Term Loan

Common for one-time large purchases such as machinery or infrastructure. Offers fixed repayment schedules but may require collateral and impact debt covenants.

8. Equipment Leasing

Ideal for upgrading technology or acquiring vehicles without large upfront payments. Leasing can help preserve working capital and offer tax advantages, though it may cost more over time.

9. Sale and Leaseback

Frequently used in asset-intensive sectors (e.g., airlines, logistics). This frees up capital while retaining operational use of the asset, albeit with long-term lease obligations.

10. Bond Issuance

Suitable for large corporates, particularly in property or infrastructure development. Bonds offer access to capital markets but involve regulatory compliance and investor scrutiny.

11. Equity Financing

Common among startups and high-growth firms. It improves liquidity without repayment obligations, though it leads to ownership dilution and potential shifts in strategic control.

12. Government Grants

Available for qualifying initiatives such as infrastructure, R&D, or sustainability projects. Grants are non-repayable but often competitive and subject to strict eligibility criteria.

Type of funders: from the banks to alternative lenders

Beyond the financing methods themselves, companies should also assess the spectrum of funders available, as the provider can be just as influential as the instrument.

- **Traditional Banks** - Best suited for established, low-risk companies. They offer lower financing costs and long-term stability but often require strong collateral, extensive documentation, and compliance with strict covenants.
- **Boutique Lenders** - Serve SMEs and niche sectors with faster approval processes and more flexible terms. Costs are higher, but structures can be tailored to specific business needs.
- **Alternative Lenders** - Focused on startups and fast-growing firms, they provide very quick access to cash (e.g., invoice factoring, merchant cash advances), though usually at higher interest rates.
- **Private Equity and Venture Capital** - Target high-growth firms, particularly in technology and innovation-driven industries. Funding comes through equity investment, which provides strategic support but results in ownership dilution.
- **Government and Development Finance Institutions (DFIs)** - Provide subsidized loans, guarantees, or grants for SMEs and strategic sectors such as infrastructure or sustainability. Terms are often concessional but may involve lengthy approval processes and compliance requirements.
- **Asset-Based Lenders** - Suitable for companies with significant tangible assets. Financing is secured against receivables, inventory, or equipment, making it useful for unlocking liquidity, though costs may be higher.
- **Crowdfunding and P2P Lending** - Provide businesses (including startups) access to broad pools of investors via digital platforms. Terms vary, and while accessibility is higher, funding amounts may be limited.
- **Corporate or Supplier Financing** - Trade credit or vendor financing linked to supply chains. Generally fast and low cost, but tied to purchase orders or invoices, making it dependent on supplier-buyer relationships.

Selecting the right funding partner is as important as the financing instrument itself. A thoughtful match between funder type, business profile, and project objectives can lower financing risks and ensure a better fit with long-term strategy.

Add-on: Technology and Innovation in CAPEX Financing

While CAPEX financing is traditionally delivered through instruments such as loans, bonds, or leasing, new technologies are reshaping how these arrangements are executed.

Smart contracts, for example, are self-executing agreements coded on blockchain platforms. In a CAPEX context, they can automate the release of funds based on pre-agreed milestones, such as equipment delivery or project completion. This reduces administrative effort, enhances transparency,

and helps mitigate counterparty risk. Although not a funding source in themselves, smart contracts are increasingly used to improve efficiency and reliability in capital project financing.

Conclusion

Managing liabilities is as critical as managing assets. Selecting the right mix of financing strategies—tailored to your company’s cash flow, risk profile, and growth objectives—can help sustain operations, support expansion, and ultimately create long-term value for shareholders.

Need help identifying the right financing structure for your business?

Our BDO Thailand Advisory team offers tailored financing and cash flow strategy services for companies of all sizes.

Summary

Financing Method	Best For	Pros	Cons
Lines of Credit	Flexible short-term needs	Only pay interest on used amount	Variable rates, renewal risk
Short-Term Loans	Seasonal or urgent needs	Lump sum, fixed repayment	May require collateral, interest cost
Overdraft Facilities	Emergency liquidity	Easy access, linked to bank account	High interest, limited amount
Invoice Factoring	B2B firms with receivables	Immediate cash, offloads collection	Fees, may affect customer relationships
Supply Chain Financing	Buyers with strong credit	Early supplier payments, extended buyer terms	Requires buyer participation
Merchant Cash Advance	Retailers with card sales	Fast access, flexible repayment	High cost, daily deductions

Financing Method	Best For	Pros	Cons
Term Loans	Large one-time purchases	Predictable payments, fixed terms	Requires collateral, affects debt ratios
Equipment Leasing	Tech upgrades, vehicles	Preserves cash flow, tax benefits	No ownership, long-term cost may be higher
Sale-Leaseback	Asset-heavy industries	Unlocks capital, retains asset use	Long-term lease obligations
Bond Issuance	Large corporations	Access to large capital, fixed terms	Regulatory burden, investor expectations
Equity Financing	Startups, growth-stage firms	No repayment, strategic investors	Dilution of ownership, loss of control
Government Grants	Public-benefit projects	Non-repayable, supports innovation	Competitive, limited availability

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