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# CASE STUDY

# ABC Group

Unserviceable, Heavy Debt

Heavy Losses and declining cashflows

Writing is on the wall...!



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# History of ABC Group

- ABC Holding Company – established in 1969
- Engaged in distribution of a leading Japanese Electronic Brand (consumer durables) as the sole agent (Agency) in Micronesia.
- Engaged in import and distribution of Japanese motor vehicles as their sole agent (Agency) in Micronesia.
- Soon became the No. 1 consumer durables distributor in Micronesia.
- Established its Print Packaging operation in 1981 with two companies serving the exporters (indirect) and the other for local manufactures.
- Invested in two hotel properties (Coastal area).

# History of ABC Group (Cont'd)

- Group Structure:
  - ABC is a fully owned subsidiary of ABC Holding Company.
  - ABC Holding Company also owns 99% of the packaging company (PC1) engaged in print packaging for manufacturers who sell their products in the local market.
  - PC1 owns 99% of the packaging exports company (PC2) which is engaged in print packaging for manufacturers who export their products (not for the local market).
- Electronic Brand (consumer durables) agency, Motor vehicle agency and Print Packaging business grew substantially from 1980 due to the open economic policies implemented by the Government.



# History of ABC Group (Cont'd)

- In 1995/96, the ABC acquired a majority share of a group engaged in Ceramic Industry with two more subsidiaries that engaged in manufacturing floor tiles and wall tiles respectively by investing over US\$ 1.0 Bn. - Own funds of US\$ 500.0 Mn and borrowed funds of US\$ 500.0 Mn. The shares were assigned to the bank as security.
- Bought a plantation company engaged in Tea, Rubber and other export crops. This is, too, through borrowings.
- Negotiated for an investment of US\$ 10.0 Mn with a Malaysian investor to repay the above debts but did not materialize due to the Malaysian crisis.

# Profit & Loss A/C - 1997

\$ Mns

Turnover	3,670
Profit Before Tax	373
Less:Taxation	(59)
Less: Minority Interest (NCI)	(213)
Profit for shareholders of ABC	101
Profit C/F	161

# Balance Sheet - 1997

\$ Mns

Fixed assets & Investments	4,548
Current assets	950
Share Capital & Reserves	2,626
Retained Profits	161
Long-term loans	1,933
Current liabilities	778

# State of ABC Group – 1999/2000

- Heavy debt -1997 \$ 1,400 Mn, 2000 \$ 1,668 Mn
- Increased interest cost -1999 – \$ 252 Mn p.a, 2000 - \$ 340 Mn p.a.
- Continued losses after 1997 (1997 – \$ 101 Mn profit and 2000 – \$1,625 Mn loss)
- Drop-in turnover - 1997- \$ 3.7 Bn & 2000 – \$ 1.1 Mn
- Lost all investments (Ceramic Group and Plantation Company, Hotel Operation (2 properties under 2 companies) as the banks that lent to ABC foreclosed the securities (shares owned by ABC Group were sold by the banks).
- Loss of many freehold assets (Group H/Q, Printing H/Q, One printing factory premises, 2 other freehold properties owned by ABC).
- The threat of legal action against ABC Group by many lenders.



# Profit & Loss A/C

(Selected Years)

(Figures in \$ Mns)	1997	1999	2000
Turnover	3,670	942	1,090
Profit Before Tax	373	(1,660)	(448)
Less:Taxation	(59)	0	0
Minority Interest (NCI)	(213)	55	0
Profit for shareholders of ABC	101	(1,605)	(448)
Profit C/F	161	(1,438)	(1,886)

# Balance Sheet

(Selected Years as of 31st March)

(Figures in \$ Mns)	1997	1999	2000	2002
Fixed assets & Investments	4,548	1,016	656	550
Current assets	950	1,162	259	195
Share Capital & Reserves	2,626	668	666	666
Profit /(Accumulated Losses)	161	(1,438)	(1,886)	(2,898)
Long-term loans	1,933	1,397	1,670	2,642
Current liabilities	778	1,551	465	335

# Debt in April 2002

\$ Mns	Security	Capital	Interest	Total
Development Bank 1	L&B, Mach:	227	65	292
Development Bank 2	L&B, Mach:	195	46	241
Three Com: Banks & 1 Individual lender	Partly by L&B	519	94	613
Four various Banks	Unsecured	573	240	813
Four other Banks & Institutions	Unsecured	338	184	522
Four various Banks	Partly sec	152	24	176
Total (17 Institutions & one Individual)		2,004	653	2,657

# Board Meeting – April 2002

- All three companies enjoy very limited working capital facilities for their operations. Due to heavy losses incurred every month, the working capital of the companies is getting eroded.
- Banks do not provide any more facilities as the repayments to all banks have been defaulted.
- There is no possibility of making any repayments as there are no cash surpluses being generated through operations.
- The ABC does not have the capacity to make payments to its creditors (only salaries are paid).

# Board Meeting – April 2002

- Many banks have informed the group that they would resort to legal action and/ or implement parate-execution to recover their dues.
- Disposing of any one of the remaining assets or banks foreclosing any asset mortgaged to them (Land or machinery) would result in ABC's operations (group) coming to a standstill. This would mean the group will have its natural death.
- The chairman (the main shareholder) states that the ABC group is now bankrupt but requests the board to think outside the box and come up with any other possible suggestions for consideration to save the company so that its customers, creditors and staff do not have to face repercussions for wrong decisions that we all (as directors) made in the past.



# The Proposition – June 2002

- Total debt – \$ 2.8 Bn plus
- Other creditors \$ 176 Mn
- Total liabilities – \$ 3.0 Bn
- Total assets \$ 750 Mn
- Net assets negative \$ 2.2 Bn (\$ 2,230 Mn)
- Asset cover – 20 to 25 cents to a Dollar
- Forced sale asset cover estimated at 10 cents to a Dollar

# Act Now or Perish....!

What can we suggest at the next meeting scheduled for 15th June 2002?



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# Submission Guidelines

- The initial round submissions will be assessed only through the submitted document with your solution.
- State assumptions, if any.
- If needed, you are free to use any theoretical models to build the solution.
- You are free to use graphics, graphs and tables to make your solution more reader-friendly.
- When submitting, rename your submission as **Maestro\_TeamName**
- Submit your solution in the form of a PDF presentation via our [web portal](#). View the sample template [here](#).
- You have 10 days to tackle the case from the date released.
- For any clarifications regarding the case study, reach us at the [ask us](#) corner of the web.



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