AgriCare Corp

Ravi Belgamkar, the President of AgriCare was shocked when a major fire broke out in the Kollam unit, on the day of inaguration of the new expanded plant. All arrangements were made for the inauguration of the plant on October 2nd, 1999. But before the festivities could start, there was a short circuit with some loose wires hanging for the special lighting of the inaugural ceremony. The company had significant amount of oil in stock and since the plant was new, most of the emergency equipment was still not in place. A major damage was done before the fire brigade brought the fire under control. The entire new plant was burnt down, a part of the old plant was damaged and lots of raw material and finished goods stocks were damaged in the fire.

Though the unit was sufficiently covered by insurance, which ensured that a major part of the plant and machinery losses could be compensated for, the replacement costs were going to be high. Moreover what was worrying was the delay in the launch of a new range of products that were exclusively manufactured in the Kollam plant. A week after the fire Ravi had a meeting with the marketing and production teams. Next on his agenda was to meet Ms. Ranjana Kapur, the accounts head to get a picture of where exactly the firm stood, and what would happen to the company's financials by March 2000.

AgriCare had an impeccable record of presenting its audited accounts to the board within a fortnight after the accounting year ended - even before they went in for computerization of the accounts. For the past three years, ever since computerization, they were targeting to produce their accounts even earlier. The company's annual accounts for the year 1998-99 are given in Exhibits 1 and 2.

All the transactions were done on-line and all the plants were linked with the Head Office in Hyderabad. The company had a system of taking data backups every day. So there was no loss of accounting data because of the fire.

AgriCare had three plants in all - in Rajkot, Kurnool and Kollam. While the Rajkot and Kurnool units were mainly into processing of edible oils - sunflower, safflower and groundnut - the Kollam unit was exclusively set up to take care of their coconut oil business and later extension into haircare and cosmetic products. AgriCare had planned to launch several variants of its basic haircare products - shampoos and hair-oil. A whole new set of equipment was bought in 1998-1999 and they decided to inaugurate the expanded capacity in October 1999 after they had found that the test marketing proved to be very successful.

In 1999-2000 an additional amount of Rs. 450 Lakhs was spent on acquiring new Plant and Machinery, and Rs. 50 lakhs in erection and trial runs. Wages of Rs. 50 Lakhs used for erection work and raw material of Rs. 100 Lakhs used in trial runs was not included in the above figure. Construction was complete and ready to be handed over to the production by September 30th, 1999. The capital-work-in-progress listed in the balance sheet of 31st March 1999 was also pertaining to the current phase of expansion of production capacities and plant modernization plans. The next phase of expansion was originally scheduled in April 2001, but now because of the fire, more work on the past equipment and purchase of certain new equipment had to be speeded up.

Prepared by Professor M S Sriram.

A summary of the financial transactions of AgriCare Corp indicated that the company's sales had grown phenomenally in the first six months and they had achieved a sales turnover of Rs. 45,257 Lakhs as against Rs. 78,450 Lakhs for a full year in 1998-99. However, now due to fire, there was bound to be a set back in the growth phase - the Kollam plant would produce very little, as the energies would be concentrated in rebuilding the plant. It was expected that the next half-year would have a sales of Rs. 25,000 Lakhs. Of the total sales around 40% of the sales was expected to be credit sales.

There were orders worth Rs. 2,500 lakhs as on September 30, which were to be despatched in October from the Kollam Plant. The company was unable to honor these orders and as per the terms of the agreement AgriCare was expected to pay Rs. 200 Lakhs as damages to its dealers. However, the company negotiated with the dealers about the damage amount and it was to be settled for Rs. 150 Lakhs as compensation considering the excellent relations they enjoyed with AgriCare in the past. This amount was to be paid on 30th October. The company had received an advance of Rs. 1,200 Lakhs from Deepak Kanji and Co., on the 1st September 1999 against the orders that were to be shipped from the Kollam plant. Now that it was unable to honor these orders, the company as per the terms of the agreement was expected to return this amount with an interest of 10% per annum. This amount was to be returned with interest on 15th of October 1999.

The company's sales policy varied across products and clients based on the relationship and internal ratings. For some products where the company was having an advantageous position it received money in advance along with the orders and for some it gave a credit up to a maximum of 30 days. The total advances received from customers against outstanding orders as on March 31st, 2000 was expected to be Rs. 1,800 Lakhs (The opening balance as on 1st April 1999 on this account was nil). The company was in a position to honor all other commitments from its Rajkot and Kurnool units.

The company was extremely careful in choosing the customers who would get credit. The total amount expected to be outstanding from dealers as on 31st March was Rs. 5,000 Lakhs listed under Sundry Debtors. As a matter of extreme caution, it was a company policy to create a provision for bad debts for all dues, which were more than 90 days old. As on 1st April 1999 there were no such amounts, but as on 31st March such dues were expected to be Rs. 50 Lakhs.

The other income had grown to Rs. 125 Lakhs. This included Rs. 25 Lakhs of gain on sale of Other Fixed Assets owned by AgriCare. These were acquired at a cost of Rs. 200 Lakhs in 1989 and were sold in early April 1999. The accumulated depreciation on these assets was Rs. 100 Lakh as on the date of sale.

The company bought raw materials from the regulated markets either by open auction or by a tendering process. They also bought raw materials from the open market. The total raw material purchased during the first six months was Rs. 25,500 Lakhs. It was estimated that while the company would continue procurement of groundnut at the planned levels, their operations in coconut would substantially come down. The total purchase of raw material that was envisaged in the second half was Rs. 20,000 lakhs. All purchases were made on credit. Usually the company had to pay within 15 days of purchase of raw material. This was as per the rules of the regulated markets. An amount of Rs. 250 Lakhs was expected to be pending to the suppliers at the end of the year. But for this amount, all other creditors were to be settled in full including for purchase of miscellaneous items.

It was envisaged that the year end inventory of raw material would be around 20% lesser than last year's closing inventory, considering that the Kollam plant was not working. Of the purchases, Rs. 1,500 Lakhs of raw materials was lost due to fire. There was also weight losses due to handling and loss of moisture - this was estimated to be Rs. 500 Lakhs based on weighted average cost of purchase for the entire year. Past experience indicated that as on March 31st the market price for raw material was usually 20% less than the weighted average cost of acquisition of the raw material. This usually happened due to the company's policies of buffer stocking - to ensure quality and manage the supply chain at the consumer level. However, it was the company's policy to value inventory at cost of acquisition due to the seasonal nature of the product. The physical stock verification at the end of six months indicated that the volume stocks tallied with the books after accounting for the above losses.

The finished goods stocks at the end of the year were expected to be around 30% lesser than opening stocks, after accounting for all losses. There was a loss of finished goods stock of Rs. 528 Lakhs due to fire. When the fire took place, Ranjana realised that the annual fire insurance on stocks had expired on 31st March 1999 and they had forgotten to renew in the pressure of year-end closing of accounts. While Ranjana had a lot of explaining to do for being the cause of this massive loss, she lost no time in insuring the floating stocks for a year on October 3rd. The insurance was valid until September 30th 2000 and an amount of Rs. 750 Lakhs was paid as premium.

AgriCare had entered into a fixed rate contract with a local co-operative to purchase the coconuts at prefixed prices of Rs. 500 Lakhs per lot in three distinct lots. An advance payment of Rs.300 Lakh as earnest money was paid to the co-op in early September. An amount of Rs. 100 Lakh of this money would be adjusted towards the supply of each lot. The first lot was to be delivered on 15th October, the second on 15th Feb 2000 and the last lot was expected in April 2000. The company did not want to take delivery of these materials because the facilities to handle these were damaged in the fire. However the procurement manager of AgriCare suggested that there was no point in canceling the contract and forfeiting the deposit. Instead, he suggested that they could sell these lots in the open market when the delivery was due. A contract to sell the first lot at Rs. 750 Lakhs to Akbar Mills was entered into on the October 4th. The co-operative arranged to directly deliver coconuts to the godowns of the Akbar Mills. As per the contract, the company paid Rs. 400 Lakhs for the lot (excluding Rs.100 Lakhs to be adjusted). However after doing this deal the government announced opening up of imports from Srilanka which was bound to depress the prices. The prices were expected to fall drastically and it was expected that the prices would be less than Rs. 400 Lakhs per lot when the next two delivery dates fell due. Therefore, it was expected that AgriCare would have to forfeit the remaining earnest money deposit of Rs. 200 Lakhs. Though AgriCare rarely traded in raw materials, under exceptional circumstances of doing so, sale of raw materials was considered as a part of the main business of the company.

The other payments expected to be made for the entire year were as follows:

Interest	Rs. 1,025 Lakhs (excluding interest payable on advance money received mentioned earlier)
Excise Duty	Rs. 6,150 Lakhs (including Rs.180 lakhs pertaining to disputed demands of previous years settled under the Kar Vivad Samadhan Scheme)

Other Manufacturing Expenses: (in Lakhs)

Wages	Rs. 8,455
Power	Rs. 5,950
Repairs	Rs. 883
Stores Spares	Rs. 3,437

All the above expenses were to be fully paid for. The closing inventory of stores and spares was expected to be Rs. 100 Lakhs.

AgriCare was expecting to recover Rs. 1,500 Lakhs of Loans and Advances (extended to a company under the same management). The balance amount of Rs. 3,852 Lakh was considered to be good and no provisions were made for this. In fact, the company was considering an early recall of this loan in 2000-01 as it needed to enhance its liquidity to quickly rebuild the Kollam plant. AgriCare was planning to pay back Rs. 10,000 Lakhs of its current liabilities and had taken a fresh overdraft of Rs. 7,270 Lakhs from their bankers.

The company had paid the dividend tax and the proposed dividends of the last year in the month of July 1999. The management wanted to put up a brave face in spite of the fire and maintain dividends at the levels of last year, but for this Ravi wanted to be sure of both the positions of liquidity and profitability.

Ranjana was having regular correspondence with the Insurance companies. The estimated loss of plant and equipment in the Kollam Plant was Rs. 2,485 Lakhs (Gross) as per the books. The fire razed the entire new plant that was to be inaugurated in October. Also some old plant and machinery which had an accumulated depreciation of Rs. 200 Lakhs as on 31st March 1999 was also fully damaged. The Insurance Company was insisting that they would settle insurance for the new plant at 80% of the acquisition cost (excluding expenses on erection and trial runs). In case of the old plant, they were again willing to pay 80% of the book value after charging depreciation upto September 1999. The claim was to be settled in November 1999. It was the company policy to charge a depreciation of 15% per annum on straight-line basis on the plant and machinery. A 10% straight-line depreciation was charged on the other fixed assets of the company.

Ranjana knew that it would take around Rs. 50 Lakhs (net after realising scrap value) and around 7 months for the old plant to be dismantled, rubble cleared and the property brought back to a position where they could undertake fresh construction work. The project was to be awarded on a turnkey basis and all payments were to be made after the work was completed. When she consulted with Ravi, he suggested that it be capitalized along with the construction for new plant.

She also knew from her conversations with the plant engineers, that it would take at least around 8-10 months before the new plant was up and the replacement cost of the assets lost would be nearly Rs. 3,000 Lakhs.

More than anything, the most pressing problem for Ranjana was to give a projection of the accounts of the year 1999-2000 so that some preventive action could be taken to ensure that the company earned some profits by rethinking their strategy.

You are required to help Ranjana with the following:

1. Projected Profit and Loss Statement for the year 1999-2000.
2. Projected Balance Sheet as on 31st March 2000.

Exhibit 1

AGRICARE CORP

Income Statement for the year ending 31 March 1999 (Rs in Lakhs)

Income:			
	Sales Cash	52400	
	Credit	26050	78450
	Other Income		100
Total			**78550**
Expenditure			
	Raw Materials consumed		36000
	Excise Duty		4200
	Manufacturing Expenses		12000
	Administration Expenses		8000
	Selling and Distribution Expenses		10500
	Interest		700
	Depreciation		1400
Total Expenses before Taxation			**72800**
Profit before Taxation			5750
	Provision for Taxation		2250
Profit after Taxation			3500
Appropriations			
	Proposed Dividend	750	
	Provision for Tax on Dividend Payout	75	825
	Balance Carried to General Reserve		2675

Exhibit 2

AGRICARE CORP
Balance Sheet as on 31st March 1999

Liabilities	Amount (Rs. Lakhs)
Share Capital	5200
Reserves and surplus	28910
Borrowings	
Debentures	5000
Loans:	
Secured	98
Unsecured	2270
Current Liabilities and Provisions:	
Sundry Creditors	500
Other Current Liabilities	11580
Provision for Taxation (Including Dividend Payout tax)	5167
Provision for Dividend	750
Provision for taxes on Dividend	75
Total	**59550**

Assets			Amount (Rs. Lakhs)
Fixed Assets			
Land			13500
Plant	Gross Block	10520	
	Less: Accumulated Depreciation	4960	5560
Other Fixed Assets	Gross Block	9520	
	Less: Accumulated Depreciation	4850	4670
Capital Work in Progress (includes Rs.50 Lakhs worth of erection expenses)			1125
Investments			556
Current Assets			
	Raw Material Inventory	11450	
	Finished Goods Inventory	8750	
	Sundry Debtors	6200	
	Cash and Bank Balances	362	
	Other Current Assets	1950	
	Stores and Spares	75	
	Loans and Advances	5352	34139
Total			**59550**

Contingent Liabilities	
Disputed Excise Duty	250