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**KC5 – CORPORATE STRATEGY AND CONTEMPORARY ISSUES –
OCTOBER 2015**

Assignment

Super Bargain Lands (Pvt) Limited

Super Bargain Lands (Pvt) Limited (SBLL) engages in buying and re-selling plots of land, and was incorporated in 1999 by Srilal Perera, the present Chairman and Managing Director. Srilal is an accountant by profession, and has had wide-ranging experience in three other large organisations before starting his own company.

His last work experience was at Beta (Pvt) Limited (BPL), a registered finance company which is a subsidiary of one of Sri Lanka's large conglomerates. Working as the head of finance at BPL that handled buying and selling land as one of its major lines of business, Srilal was somewhat frustrated with the extravagant cost structures and unethical management practices that he witnessed by some of the company's senior directors in purchasing land, that eventually resulted in operational losses in certain instances.

Even though BPL's total assets was growing Srilal was aware of possible losses that the company will have to absorb as a result of some over-valuations in its land portfolio. During his stay with the company Srilal learnt finer points and key factors of success in the property business. As a result he was well versed with the business landscape when he commenced his own company.

BPL, with an island-wide network of over a hundred branches, was the leading player in the property market that ran in to serious financial problems in 2005. This debacle led to an imbalance and a depression in the island wide property market as BPL and its branch network was one of the major buyers of marketable property in the country for the housing market.

Purchasing properties at the right price and at the right time, with personal involvement and a quick turnaround were among the key factors of success in the Sri Lankan property business. The problems of Srilal's former employer BPL, posed an ideal opportunity to SBLL that was holding a portfolio of land bought at optimum prices. SBLL soon emerged as the leading property company in the country.

By developing a committed, well rewarded and motivated multi-functional team with the Chairman leading from the front, SBLL made vast strides towards success within a record period of time.

As a businessman with strategic insights, Srilal is keen to keep an eye on emerging competition as well as the need to be innovative which will provide a sense that the company is dynamic, creative and is always looking to improve its offerings.

During the last board meeting Srilal discussed his long-term vision for SBLL; "To become the most respected and admired property development company that will enrich Sri Lankans with a comfortable home".

A senior director overlooking the marketing aspects of the company broached the concept of constructing and selling SBLL apartments as the company's first major move of diversification. This greatly evoked the interests of Srilal and the deputy managing director who has been with the company from its inception. Srilal was quick to point out that his intention is to commence a separate property development company as a public quoted company that will enable SBLL to concentrate on its core business, as well as spread his risks and avoid any capital constraints competing with more established constructing companies.

Srilal also went on to comment that he intends this new company to have a debt-equity ratio of 20:80 in line with his company SBLL even though the more established public quoted industry players have a beta of 1.25 and a debt-equity ratio of 40:60. The expected rate of return in this market is 20%.

However he mentioned that he wishes to establish the financial viability of this new product concept by carrying out a trial project using an already available piece of valuable property of sixty perches in Nugegoda that was already available in the company's land bank. This property was purchased in January 2010 at a cost of Rs. 60 million.

Srilal approached Dimutu, the company's financial controller in early September 2015 and assigned him the task of leading a multi-disciplinary team to ascertain and report the viability of this project by 20 October 2015 as a prelude to embarking on creating a separate public quoted property development company. Sathy, a renowned architect, is the company's technical consultant, the only external party in the project team.

Notes:

The following information has been compiled by Dimutu and his project team:

- The land appears in the SBLL Balance sheet as at 31 March 2015 at a revalued amount of Rs. 75 million (revalued in 2014).
- The construction and handing over of the apartments for occupation can be completed in two years from the date of commencement.
- Currently SBLL has a debt-equity ratio of 20:80 and cost of debt for all reputed companies in the property sector is 13%.
- Rate of corporate tax is 30%.

Assuming the role of Dimutu as the head of the project team, you are required to:

Prepare a report to the board of directors of SBLL on the trial property development project and your recommendations.

(Total: 20 marks)

In order to keep your task within manageable proportions from an examination perspective, you are advised to follow the under mentioned guidelines:

(a) Suggested structure for your report:

- Executive summary
- Introduction
- Market feasibility
- Technical feasibility
- Financial feasibility
- Discussion on interest rates and its impact to the project
- Conclusions/ recommendations
- Annexures
- References

(b) You may limit market feasibility of the project to the following aspects only.

- Market segmentation, targeting and positioning
- Marketing mix

(c) Keep the content of the technical feasibility to a manageable level and to a minimum as possible with the assistance of an architect/engineer who will guide you with the required technical inputs and outputs that can be translated into financial information required to carry out the project feasibility. Also due to confidentiality and proprietary nature in details in relation to specific projects you may assume reasonable values in relation to any variable.

(d) As a secondary research examine as to how interest rates, typically a major driver of demand in purchasing real estate, will impact the feasibility of this project. Eg: how changes in the interest rates will have an impact on loans granted by financial institutions for housing purposes.

Take cognizance of the fact that the project, if proved the test of feasibility will be most likely to be embarked in November 2015 and hence it will be necessary to make a conjecture as to the direction of interest rates under the current environment.

All the data gathered for the discussion should be forwarded as an appendix.

- (e) Explain how and to what extent the knowledge you acquired in (d) above will enrich the proposed diversification in the form of a new subsidiary of SBLL under consideration.
- (f) Make all relevant and reasonable assumptions necessary to complete the feasibility study.
- (g) You may ignore 'inflation' in the project feasibility for this assignment.