

Adom Fresh Foods

Student brief

You work in the corporate credit team of a Ghanaian commercial bank.

Adom Fresh Foods Limited has been a customer for six years. It distributes fresh produce from farms in the Eastern and Ashanti regions to hotels, hospitals, and supermarkets across Greater Accra and Kumasi. It is owned and run by two siblings, Ama and Kwesi Boateng.

The bank holds a GH¢5.0 million overdraft facility and GH¢11.5 million of term debt.

Over the past three quarters Adom has missed three scheduled instalments on the term loan. Each was made good within a fortnight, but the pattern has triggered a review. The relationship manager's file note reads: "Revenue has doubled in three years. Owners insist the business has never been stronger. Cannot reconcile this with the payment record."

Your credit committee meets tomorrow. The facility comes up for renewal in six weeks.

Exhibit 1 • Adom Fresh Foods, three years

GH¢ MILLIONS	YEAR 1	YEAR 2	YEAR 3
Revenue	40.0	60.0	80.0
Cost of goods sold	(34.0)	(51.0)	(68.0)
Operating overhead	(4.0)	(6.0)	(8.0)
Operating income	2.0	3.0	4.0
Interest	(0.4)	(0.8)	(1.2)
Net income	1.20	1.65	2.10
Total assets	15.0	23.0	34.0
Total debt	5.0	9.4	16.5
Owners' equity	6.3	8.0	10.0

Exhibit 2 • Ratios — Years 1 and 2 computed for you

RATIO	YEAR 1	YEAR 2	YEAR 3	PEERS
Return on equity	19.1%	20.6%	?	17%
Net profit margin	3.00%	2.75%	?	2.6%
Asset turnover	2.667	2.609	?	2.5
Leverage (assets/equity)	2.381	2.875	?	2.6
Days sales outstanding	30.1	45.0	60.2	32
Days inventory	30.1	40.1	49.9	30
Days payable	39.7	40.1	40.3	43
Cash conversion cycle	20.5	45.0	69.8	19
Times interest earned	5.00	3.75	3.33	5.0
Current ratio	1.617	1.728	1.840	1.6

Question 1 • 15 minutes

Complete the four blank cells: Adom's Year 3 return on equity, net profit margin, asset turnover, and leverage.

Check that the three drivers multiply to the ROE. If they do not, find the error before moving on.

Question 2 • 13 minutes

The relationship manager cannot reconcile a doubling of revenue with three missed payments. Reconcile it for him.

Your answer must explain two things that look like good news and are not: **the rising return on equity**, and **the rising current ratio**.

Question 3 • 9 minutes

Three options are on the table at the credit committee. **Renew the facility as it stands. Renew it with conditions. Call the debt.**

Choose one, and state the single piece of information you would most want before the committee votes.