

Alternatives for financing the rosario acero s.a steel mill

Business



Following the disassociation of Rosario Acero S. A from Giganto Acero S. A in 1997, things have never been the same again for this company. Rosario Acero S. A steel mill had the challenge of widening its operations, workforce, and searching for new customers. This followed a strike at Giganto Acero which led to a loss of market since it offered more than fifty percent of the sales. In connection to this scenario, the management is seeking \$7. 5 million in long term for the purposes of: \$ 4. 5 million to pay company's present line of working capital, \$ 0. 975 million to repay long term debt, and 1.

725 million to finance capital improvements and general operations. The biggest dilemma for Pablo Este is on the method to adopt in seeking financing since his company has low revenues of about \$ 35 million thus limiting its options on financing. Sir. Este has the responsibility establishing suitable options for financing his company since he is the chairman and a majority shareholder of Rosario Acero S. A (Brealey, 2010). Available alternatives for financing Following an investigation by Raul Martinez who is an independent financial consultant, the report showed that Rosario Acero S. A was able to raise quite some good amount. From the report, Sr. Martinez stated that, \$ 7. 5 million would be raised from the private placement of eight- year senior notes with warrants at a rate of 13 percent. Further, the option of using the Initial Public Offer (IPO) was also a potential method of financing the company. In addition, Pablo Este may opt to retention of recently negotiated \$5million working-capital line of credit with Banco De Sol at two percent above local lending base rate. Additionally, the idea of selling

the entire company to another firm was also under discussion (Brealey, 2010).

1. Private placement of eight-year notes As stated by Raul Martinez, the method would attract two Spanish investment funds. The method is perceived to be inflexible due to the company's small size, comparatively high influence and the absence of long record of profitability. From the investigation by Raul Martinez, it's evident that the cost of financing the issuer was very high. This was estimated to be ranging from 14 to 16 percent. In this case, the premiums yielded by the lending will be unbearable comparing to the Argentine lending rate of 8.

5 percent (Brealey, 2010). On the issue of control, the private purchasers are seen to be very influential firms which may dictate the operations of Rosario Acero S. A. in respect to timing, the private placement offers quite some reasonable time of eight years which will enable Rosario Acero S. A to mobilize the expected revenues. Nevertheless, it should be noted that a lot of interest will have accumulated at the end of the period thus making the method very costly (Brealey, 2010). 2. Public Initial Offer(IPO)

The adoption of IPO was also an alternative for Rosario Acero S. A to mobilize the required finances. Despite the fact that, 233, 000 shares in the company's stock were not presently traded; six senior managers accepted to invest three times of the current share value. A breakdown of the share prices was as follows: 15, 480 shares at \$3. 00/share in 1994, 14, 220 shares at \$ 4. 00/share in 1995, and 28, 550 shares at \$9. 00/share in 1996. This verified that, the Rosario Acero S. A shares were doing well in the stock market.

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On the basis of the cost of the IPO, it was expected that a fee of around 8 percent of the IPO will be encountered (Brealey, 2010). Nevertheless, the income to be realized from the share issue was under determination by the placement of the market value of the company. Unfortunately, many issues are likely to crop up with the adoption of IPO due to the Peso crash. This has put the IPO at risk since the Merval index had raised and the stock market was still recovering. This suggests that, a limited amount of income can be expected from the IPO (Brealey, 2010).

Another risk in adopting the IPO as a method of financing the company is on the basis of viable underwriters. It is evident that the stock market is currently flooded due to privatization of public enterprises thus making investors choices wider. On this basis investors are expected to purchase shares of more stable companies and ignore IPO of small companies like Rosario Acero S. A (Brealey, 2010). Finally, the idea of applying IPO as a method of financing the company will lead to emergence of external control thus influencing the company's operation.

It's absolutely clear that share holders have specified rights on company's management and this will greatly influence decision making. Importantly, other companies may buy large proportions of the IPO and thus demand proportional presentation in the company's governance. This may mean formulation of decisions to their advantage thus putting the company's operation at a risk (Brealey, 2010). 3. selling part of the company to another firm This method involves the valuing of the company property including all minimills which will give information on the company's book value as well as the estimated earnings.

The report from the valuation will help arrive at a conclusion on whether to issue equities on the firm or debt-and warrants issue. A financial report from operation of the minimills may guarantee the sale or equity issue on its property. Some of the risks involved in this method include; exaggeration of the estimates by the potential buyer which will lead to tremendous benefit to purchaser at the expense of Rosario Acero S. A company. This will consequently lead to mobilization of very little revenue which will not cater for the expected needs.

Further, sale of part of the company will lead to dilution of the control of the company by the management. This is expected because the potential purchasers will demand proportional rights on the management and control of the company (Brealey, 2010). Recommendations Following informed investigation on the benefits and shortcomings of each alternative of financing the company, I recommend that the IPO should be adopted. This is on the basis that it will yield the required revenue at the lowest cost and posing the lowest risk to the company existence.

I further recommend that, the company management should review the prices per share as well as rights accorded to share holders. This will help control the impact of share holders on the management of the firm In addition I recommend that the management should carefully choose its underwriter to avoid inconveniences. Finally, I recommend that the determination of the size of the issue should be collectively determined by the board to avoid managers altering the prices of their shares. Conclusion

In conclusion, it is quite important for Pablo Este, chairman Rosario Acero S.

A Company to consider the adoption of IPO in seeking funds for the <https://assignbuster.com/alternatives-for-financing-the-rosario-acero-sa-steel-mill/>

company. This is following the main shortcomings and risks involved in other methods of financing the company. Though, IPO had an impact on the board control of the firm, it is much bearable compared to the other alternatives of financing the company. Reference list Brealey, R. Et al. (2010). Principles of Corporate Finance with S&P Market Insight + Connect Plus. New York: McGraw hill.