Star river electronics assignment

Problem Definition: In order to ensure the continuation and financial stability of Star River Electronics Ltd. (“ Star River”), chief executive officer Adeline Koh (“ Koh”) must convince the Company’s banker, Mr. Tan, to grant an extension on the Company’s loan as the Company stands to improve its performance through DVD production (and possibly, the purchase of new packaging equipment).

Relevant Facts: Star River is recognized in the CD-ROM manufacturing industry for producing high-quality discs. A recent study, however, indicates digital video discs (“ DVD”) will bypass CDs within six years. Koh would like to invest SGD54. 6 million in DVD manufacturing equipment to build upon Star River’s sterling reputation. Furthermore, Koh must decide whether to invest SGD1. 82 million in new packaging equipment immediately or three years from now.

Despite increasing sales, however, Star River’s historical financial statements confirm increased days in receivables and decreased return on assets which are a poor indication of Star River’s future performance and limit its ability to gain further funding from stakeholders. Analysis Summary: Judging by Exhibit 3, the Company stands to save on the new packaging machine’s amortization costs, maintenance costs, downtime and the purchase price, a collective savings of SGD388, 793 within the first three years.

Furthermore, the Company’s pro-forma financials (Exhibits 1 and 2) indicate the Company performs better with the combination of the DVD equipment and the new packaging machine than with the DVD equipment alone but the Company’s overall performance as compared to its single CD-ROM production days indicates a gradual decline in performance. As the Company’s debt increases, its operating margins and return on assets decreases, pointing towards management’s tendency to manage its debt rather than its assets.

In previous years, the Company did well. In the years 1998-1999, the Company’s operations were steady. Despite the CD-ROM shakeout in 2000, the Company is bouncing back from its initial losses. With the purchase of the DVD equipment and the new packaging machine, however, the Company will overextend itself. The debt load the Company will incur through the SGD54. 6 million DVD equipment and the SGD1. 82 million packaging machine may increase the Company’s sales steadily but these increases will be wiped out by the increase in liabilities.

With increased debt and decreasing assets, the Company is at a stand still with its liquidity. Its loans are managing the Company instead of the Company managing its assets to pay off the loans.
Conclusion/Recommendation: The purchasing of the packaging machine is inevitable, however, purchasing the equipment does not improve the Company’s financial situation. The Company must change from CD-ROM production to DVD production in order to stay competitive within the industry, but again, the purchase of this equipment does not improve the financial situation of the Company.

Mr. Tan will not award an extension of the Company’s loan unless Koh begins to manage the Company’s assets as opposed to the Company’s debt. Until then, the best move for the Company at this time is either to liquidate the assets and sell the Company name or turn the Company into a cash cow by leasing the building and its production assets to another DVD production company charging for the use of Star River's brand name to have a steady cash flow.