



Inca Masonry Products First Creditors Meeting

25 October 2017

Agenda

- Introduction
- Background
- Reasonable Prospects of Rescuing the Company
- Receipt of Proof of Claims
- Formation of a Creditors' Committee



Introduction

The BRP

Sipho Sono

- **Qualifications:** CA(SA), Adv Dip Banking
- **Competencies:** Turnarounds, BR, M&A, Corporate finance, Audit, Accounting, Financial management, Project management, Project finance
- **Practitioner Accreditation:** Senior Business Rescue Practitioner with a CIPC Licence
- **Memberships:** SAICA and TMA

Background

The board of directors passed a resolution placing Inca in business rescue in terms of Section 129

- The resolution was passed on 9 October
- The resolution was filed with CIPC on 10 October
- The effective date of commencement is 10 October
- The BRP was appointed on 10 October
- The BRP's notice of appointment was filed with CIPC on 11 October

Background (cont.)

- Inca was established in 1981
- The company manufactures quality bricks and paving products
- Bricks are manufactured from East London and Mthatha factories, whilst paving and other products are manufactured from East London only
- Facilities have been under-utilised for at least the past 3-4 years
- The company's paving products are reputed to be the best in quality available in East London and surrounding areas

Background (cont.)

- The roof tile facility in East London has been in disuse for a long time and requires significant refurbishment to bring it back to operation
- The roof tile facility was the only such in East London and was previously profitable
- Products are sold directly to end users and merchant distribution networks are not used
- The company has previously been funded through debt and no direct equity funding has been available
- Lack of working capital attenuated financial results
- Labour strike of late 2016 was disastrous

Background (cont.)

| R'000 | Jun-14 Audited | Jun-15 Audited | Jun-16 Audited | Jun-17 Unaudited |
|----------------------------------|-------------------|-------------------|-------------------|---------------------|
| Revenue | 81 520 | 78 195 | 63 371 | 41 138 |
| Cost of sales | (70 401) | (62 565) | (52 206) | (32 252) |
| Gross profit | 11 119 | 15 631 | 11 165 | 8 886 |
| Other income | 2 378 | 989 | 2 438 | 1 940 |
| Operating expenses | (14 825) | (18 784) | (16 373) | (21 347) |
| Operating Profit/Loss | (1 327) | (2 165) | (2 770) | (10 521) |
| Interest Income | 73 | 60 | 2 | |
| Finance costs | (751) | (929) | (983) | (292) |
| Profit/Loss before taxation | (2 005) | (3 034) | (3 751) | (10 813) |
| Taxation | 1 174 | (2 748) | - | - |
| Profit/Loss for the period | (830) | (5 783) | (3 751) | (10 813) |
| Operating Profit Loss | (1 327) | (2 165) | (2 770) | (10 521) |
| Add: Depreciation & Amortisation | 345 | 333 | 243 | 693 |
| EBITDA | (983) | (1 832) | (2 527) | (9 828) |

Background (cont.)

- Cumulative under-performance weakened the balance sheet

| | | | | |
|-------------------------------------|----------------|-----------------|----------------|-----------------|
| Total assets | 28 257 | 26 198 | 17 043 | 5 262 |
| Capital and reserves | | | | |
| Share capital | 4 801 | 4 801 | 4 801 | 4 801 |
| Retained earnings | (10 375) | (16 157) | (8 653) | (19 466) |
| Total equity | (5 574) | (11 356) | (3 852) | (14 665) |
| Non-current liabilities | | | | |
| Loans from shareholders | 10 613 | 10 971 | 200 | 200 |
| Financial Liabilities | 79 | 85 | 2 651 | 3 150 |
| Financial lease liabilities | 80 | - | - | 203 |
| Provisions | 916 | 1 090 | 987 | - |
| | 11 688 | 12 146 | 3 838 | 3 553 |
| Current liabilities | | | | |
| Trade and other payables | 15 343 | 19 819 | 16 114 | 16 374 |
| Financial Liabilities | 6 176 | 5 589 | 943 | - |
| Bank Overdraft | - | - | - | - |
| Financial Lease Liabilities | 623 | - | - | - |
| | 22 142 | 25 408 | 17 057 | 16 374 |
| Total liabilities | 33 830 | 37 554 | 20 895 | 19 927 |
| Total equity and liabilities | 28 257 | 26 198 | 17 043 | 5 262 |

Main Causes of Distress

The main causes of financial distress include the following:

- Loss of market share on the bricks line
- Limited funding has constrained productive capacity, resulting in further loss of business
- Inability to reposition the company to respond to loss of market share
- Insistence on the quality tag across products that have become commodities
- 5-week long labour strike was the stroke that broke the camel's back

How will the tide be stemmed

- The BRP is entertaining an offer from Mathupa Capital for the acquisition of the business
- Mathupa Capital is a black investment holding company with exposure in the concrete products through a railway slipper business done through its Rail-2-Rail subsidiary
- Mathupa have own resources to inject the necessary equity funding and to grow the business
- Mathupa are concluding their due diligence review and preliminary reports are positive

Limited opinion of BR Practitioner

It is the view of BRP that, notwithstanding inevitable risks and challenges, there is currently a reasonable prospect of a successful turnaround, based on the following :

- Mathupha Capital will inject funding and necessary strategic management expertise to the business
- Mathupha Capital will provide funding for the BRP to propose a compromise to creditors
- Dti grant funding that has recently been approved, against which NEF is providing bridge financing
- Although market share has been lost due to the absence of Inca, the sales team continues to receive enquiries and are confident to recover & increase market share

Proof of Claims

- Claim forms will be sent by email and printed copies are available
- Claim must be submitted within the next two weeks to enable the BRP to assess them ahead of publication of the BR Plan

Creditors Committee

- Creditors are encouraged to form a Creditors Committee
- The objectives and functions of the Committee are:
 - Consult BR Practitioner on any matter concerning proceedings
 - Receive and consider reports
 - Assist in better alignment of interests
- An active and functioning Committee of Creditors will enhance the BRP

Creditors Committee

- Suggested composition of the Committee to include representatives from:
 - Landlords
 - Banks, Insurers and DFIs
 - Major Suppliers
 - Smaller Creditors
 - SARS
- Creditors are encouraged to form sub-committees to facilitate focussed groups

Thank you

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