BIZCOMMUNITY

'Timing is everything' in saving a business

Whatever the nature of its business, or the sector in which it operates, when it comes to saving a company from financial collapse, timing is everything.


(Image: Wikimedia Commons)

The turnaround of an ailing Eastern Cape construction firm was due to the contractor seeking business rescue assistance "in good time", its business rescue practitioner said.

Neill Hobbs, the business rescue practitioner of the firm and owner of financial services company Hobbs Sinclair, says, "Timing is everything - you have got to elect for business rescue while there is still life in the company".

Business rescue legislation came into effect in 2011, and facilitates the rehabilitation of financially distressed companies by providing temporary supervision and management of the business and its property. Hobbs believes the legislation has stemmed the number of liquidations, which amounted to 5,000 in 2010 - prior to the process being introduced. This figure dropped to 3,456 last year.

The legislation enabled the Eastern Cape-based construction firm with 420 employees and an annual turnover of R120m to emerge successfully from business rescue proceedings at the end of last month.

The contractor, which could not be named due to confidentiality agreements, applied for rescue after realising it had a balance sheet that was not correctly structured, he said.

When a company is vulnerable to financial failure

The firm had borrowed money to buy assets and tried to pay back its debts too quickly, and had also taken on a loss-making contract, resulting in a poor liquidity position.

Hobbs said 62% of all companies going into business rescue were between 5 and 10 years old - indicating that "once a company is established and is going through a growth phase, that's when it's vulnerable to financial failure".

This was the result of greater demand for working capital.

Statistics up to March 2012 indicated that in the first year of business rescue legislation, 24 construction companies had gone into business rescue - or 10% of total business rescues. Hobbs said the construction industry generally was particularly vulnerable to business failure, as it was largely dependent on the property sector and state for work.

Construction firms were also more prone to have weak balance sheets due to high capital equipment needs and the potential for loss of profitability as a result of the sector's cyclicality. Tough trading conditions have resulted in a number of failures in the construction sector in recent years, including Erbacon, Sanyati and Rainbow Construction.

Last week, listed construction and engineering firm Protech Khuthele said it had gone into liquidation. KPMG's Gavin Gainsford, Protech's appointed business rescue practitioner, said he had found no reasonable prospect of rescuing the group. The company was "illiquid and unable to pay its debts as they become due and payable", he said.

Source: *Business Day*, via I-Net Bridge