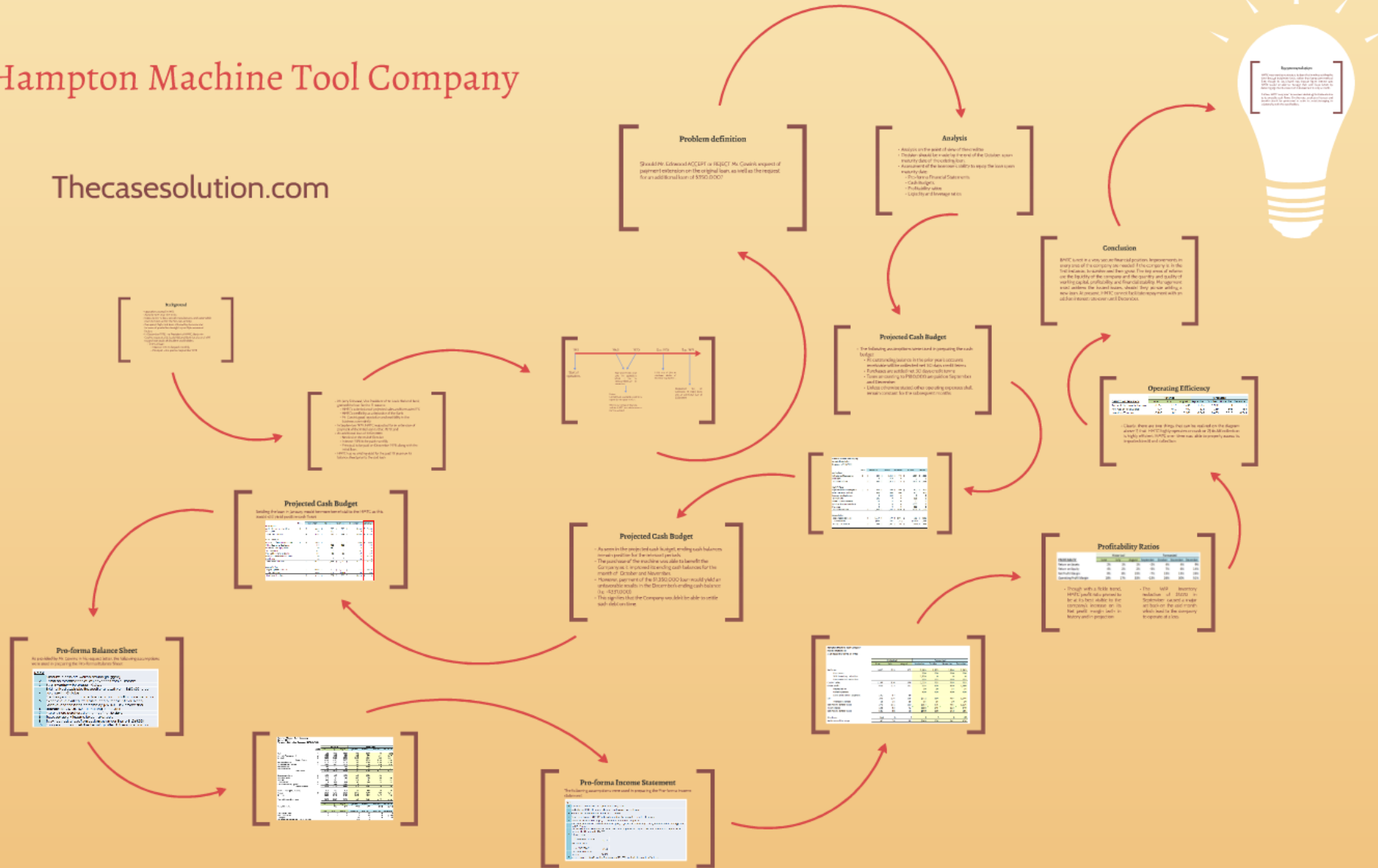
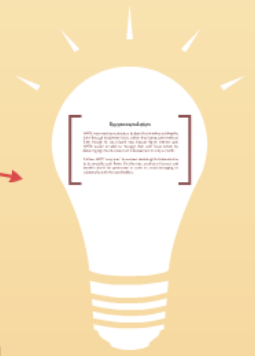


# Hampton Machine Tool Company

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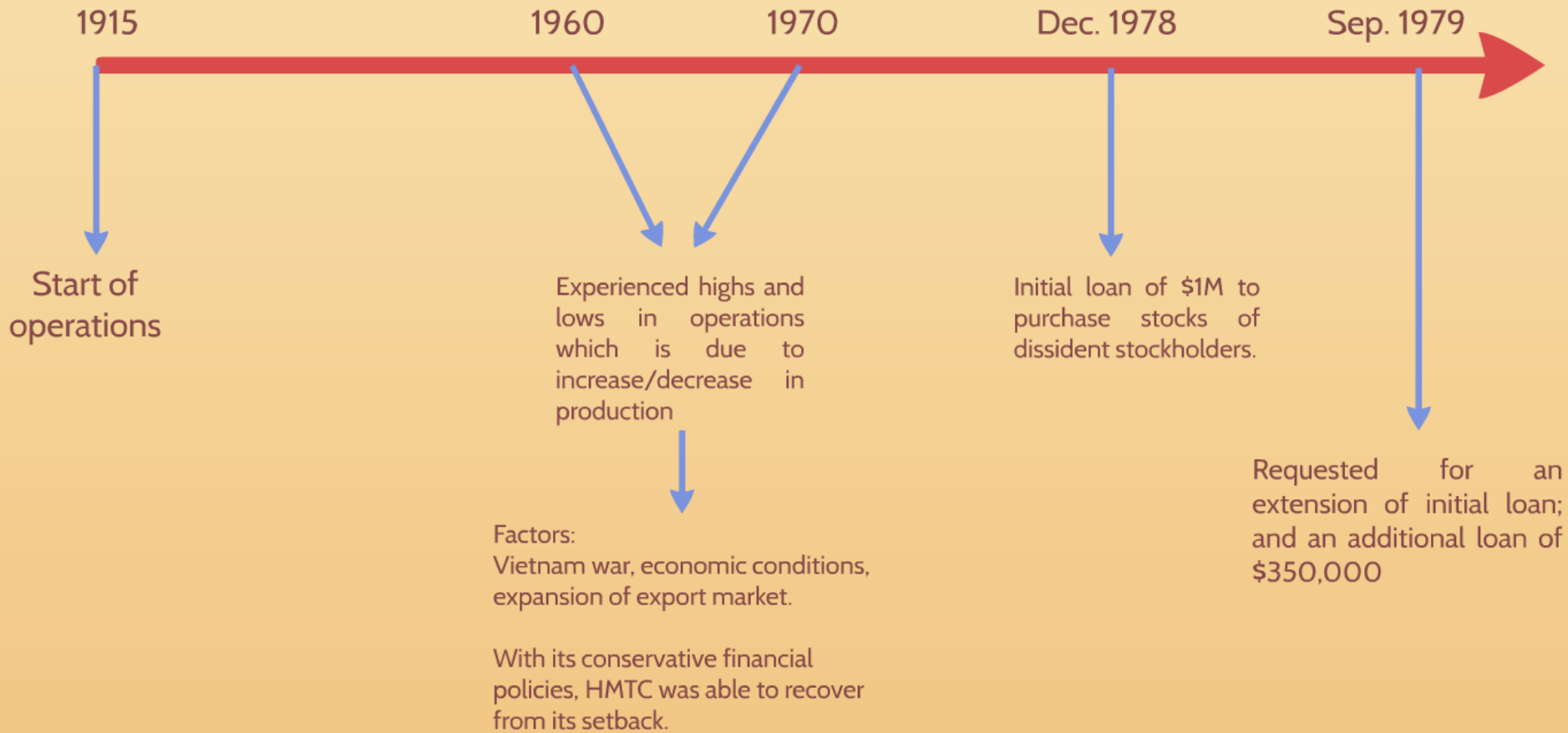
# Hampton Machine Tool Company

[Thecasesolution.com](http://Thecasesolution.com)

# Background

- Operations started in 1915;
- Manufactures machine tools;
- Caters to the military aircraft manufacturers and automobile manufacturers within the St. Louis vicinity;
- Company's highs and lows: affected by decrease and increase of production brought by multiple economic factors
- In December 1978, the President of HMTC, Benjamin Cowins, requested St. Louis National Bank for a loan of \$1M to purchase stocks of dissident stockholders.
  - Terms of loan:
    - Interest: 1.5% to be paid monthly
    - Principal: to be paid on September 1979

- Mr. Jerry Eckwood, Vice President of St. Louis National Bank, granted the loan for the ff. reasons:
  - HMTC's submission of projected sales and forecasted FS
  - HMTC's credibility as a depositor of the Bank
  - Mr. Cowin's good reputation and credibility in the business community
- In September 1979, HMTC requested for an extension of payment of the initial loan to Dec. 1979; and
- An additional loan of \$350,000.
  - Needed at the end of October
  - Interest: 1.5% to be paid monthly
  - Principal: to be paid on December 1979, along with the initial loan.
- HMTC has no existing debt for the past 10 years on its balance sheet prior to the said loan



## **Problem definition**

Should Mr. Eckwood **ACCEPT** or **REJECT** Mr. Cowin's request of payment extension on the original loan, as well as the request for an additional loan of \$350,000?

# Analysis

- Analysis on the point of view of the creditor
- Decision should be made by the end of the October, upon maturity date of the existing loan.
- Assessment of the borrower's ability to repay the loan upon maturity date:
  - Pro-forma Financial Statements
  - Cash Budgets
  - Profitability ratios
  - Liquidity and leverage ratios

# Projected Cash Budget

- The following assumptions were used in preparing the cash budget:
  - All outstanding balance in the prior year's accounts receivable will be collected net 30 days credit terms.
  - Purchases are settled net 30 days credit terms
  - Taxes amounting to P180,000 are paid on September and December
  - Unless otherwise stated, other operating expenses shall remain constant for the subsequent months