

A Case Study On  
ACI's Earnings Sinking and Subsidiary (Swapno) Losses

By

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A Case Study submitted to the Department of BRAC Business School, BRAC  
University in partial fulfillment of the requirements for the degree of  
**BBA program.**

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BRAC University  
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## Declaration

It is hereby declared that

1. The Case Study report submitted is my/our own original work while completing degree at BRAC University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

**Student's Full Name & Signature:**



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## Letter of Transmittal

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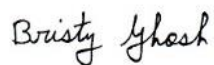
Subject: Submission of Case Study on ACI's Earnings Sinking and Subsidiary (Swapno) Losses.

Dear Sir,

I am delightfully submitting this case study report on ACI's Earnings Sinking and Subsidiary (Swapno) Losses. I found this problem on online newspaper platform 'Dhaka Tribune' and 'The daily Star'. I did a comprehensive secondary research and tried to present in case study thoroughly.

For the completion of this case study I figured out the core issues, the relevant questions, proposed solution and recommendations how ACI might compete those situations and overcome. I did all these thing based on my learnings which I was taught in my Finance major courses.

Sincerely yours,



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Bristy Ghosh

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BBA, BRAC Business School

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Date: 11/01/2021

**Executive Summary:**

ACI is a renowned brand in Bangladesh which established in the then East Pakistan period. In this case study, I have pointed some significant problems regarding ACI. After analyzing the problems, I have tried to figure out some possible solutions of those problems. I also pointed some recommendations to go forward. Hope, this case study will enrich my portfolio as well as ACI in some regards.



***ACI Limited***



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## **1. Introduction:**

The major issues of the case study are ACI's one of the renowned subsidiary the largest retail chain 'Swapno' The super-shop is incurring losses, The earning per share of ACI is declining, The stock price of ACI is decreasing, inquire the allegations from Dhaka Bank Securities, ACI distributed 115% cash and 3.5% stock dividend to its shareholders without considering the financial health of the company, continuous downfall of EPS and stock price.

This news was from the year 2018. I find out the issues and problems from the news and try to give best solutions and recommendation from my understanding of my major subject **Finance** and secondary research.

## **2. Background:**

At first, A British Multinational established a branch in Bangladesh; in the then East Pakistan. After liberation, it was named ICI Bangladesh Manufacturers; Then In 1992, ICI divested its investment in Bangladesh to the management and the name again changed to Advanced Chemical Industries (ACI) Limited.

ACI being a largest business in Bangladesh made 4 diversified strategic business units. These are ACI Pharmaceuticals, ACI Consumer Brands, ACI Agribusiness and ACI Retail Chain.

ACI's Mission:

ACI's Mission is to enrich the quality of life of the people through responsible application of knowledge, technology and skills. ACI is committed to the pursuit of excellence through world-class products, innovative processes and empowered employees, to provide the highest level of satisfaction to our customers.

ACI's Vision:

To realize the Mission, ACI will:

- Provide products and services of high and consistent quality, ensuring value for money to our customers.
- Endeavour to attain a position of leadership in each category of our businesses.
- Develop our employees by encouraging empowerment and rewarding innovation.
- Promote an environment for learning and personal growth.
- Attain a high level of productivity in all our operations through effective utilization of resources and adoption of appropriate technology.
- Promote inclusive growth by encouraging and assisting our distributors and suppliers in improving efficiency.
- Ensure superior return on investment through judicious use of resources and efficient operations, utilizing our core competencies.



## ACI's Values:

- Quality
- Customer Focus
- Innovation
- Fairness
- Transparency
- Continuous Improvement

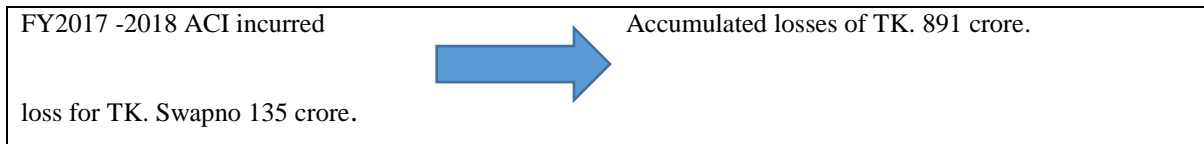
To know elaborately about Swapno, Swapno was established in 2008 as country's largest Retail supply chain and best super-shop. Now it has 129 outlets across the country and serving 40000 households each day. In Addition, in 2006 Swapno achieved Global G.A.P Initial Membership, Best retail Brand Award (KANTER MILLWARD BROWN %BANGLADESH BRAND).

But in 2018, after a decade of Swapno's establishment; its mother company ACI was incurring loss due to some internal issues which are included in the background. In further discussion of this case study will focus on those issues and try to give some productive solution which really help ACI fruitfully.

### 3. Evaluation of the Case:

- ACI's one of the renowned subsidiary the largest retail chain 'Swapno' The super-shop is incurring losses.

According to the Annual report of ACI of Fiscal year (FY2017 -2018), Swapno incurred losses of TK 135 crore and its accumulated loss incurred to 891 TK.



Which indicates, Swapno has some internal problems; such as, the products are not properly distributed, damage of the products, storehouse costs, excess outlet and employee expenses, over vehicle costs, lower monitoring capacity of perishable items etc. In addition, Swapno is holding 76% logistics of ACI. As a result, Swapno was doing bad means ACI will directly get the direct reflections negative impacts.

- The earning per share of ACI is declining,

In the previous year its mean fiscal year 2016 -2017, the EPS was TK. 5.44



But in FY 2017 – 2018 EPS dropped to (negative) TK. 0.78. Even in 2018 July to September the EPS decreased to TK. 1.26 compared to TK. 2.36 last year.

The reason behind the downfall of EPS might be, Swapno incurred loss that's why EPS was drastically declined.

- The stock price of ACI is decreasing,

The stock price of share declined to TK. 307.90 → from TK.430 previous year.

This problem reflects that because of negative EPS the shareholders sold the stocks in the market and new investors are unwilling to buy and made a negative impression about ACI stock. As a result, the stock price declined.

- inquire the allegations from Dhaka Bank Securities

Allegations from different organization like Dhaka Bank Securities; it is a matter of harming reputation. The committee assigned from DSE investigating the allegations and trying to find out the internal problems.

- ACI distributed 115% cash and 3.5% stock dividend to its shareholders without considering the financial health of the company.

This issue of ACI shows that the financial department did not have any predictions what was going on EPS and stock price; without evaluating EPS and stock price ACI distributed 115% cash and 3.5% stock dividend. From my opinion, this was a foolish decision of ACI to give 115% cash dividend knowing the negative EPS.

- continuous downfall of EPS and stock price

The ACI cited that a number of reasons are responsible for Downfall of EPS and stock price. Those reasons are currency devaluation, increase in interest rate, decrease in share of profits from joint ventures and associates, purchase rate variations due to international price hikes and high income tax expenses.

Swapno might has some internal problems; such as, the products are not properly distributed, damage of the products, storehouse costs, excess outlet and employee expenses, over vehicle costs, lower monitoring capacity of perishable items etc. In addition, Swapno is holding 76% logistics of ACI.

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Because of negative EPS the shareholders sold the stocks in the market and new investors are unwilling to buy and made a negative impression about ACI stock. As a result, the stock price declined.

Without evaluating EPS and stock price means the Financial condition; ACI distributed 115% cash and 3.5% stock dividend.

Reasons responsible for downfall of EPS and Stock price are currency devaluation, increase in interest rate, decrease in share of profits from joint ventures and associates, purchase rate variations due to international price hikes and high income tax expenses.

*Figure 1: The Probable reasons behind the issues of the Case*

#### **4. List of Questions Central to the Case:**

- I.** The ACI shareholders are leaving ACI that means they are selling ACI shares and reinvesting somewhere else because of negative EPS and decrease of stock price. In this situation; how ACI would tackle the financial loss?
- II.** Since the shareholders are leaving ACI for its vulnerable situation; Are the shareholders invest in same industry's other companies or totally different industry? [considering the shareholders that this particular industry is facing problems in the stock market]
- III.** As the shareholder are leaving ACI; in that case did ACI run the business without burden or will face the long term loss?
- IV.** In this consequences, ACI need to re-think again; should ACI separate Swapno or continue the subsidiary business?
- V.** This is mentioned in the news that ACI has huge amount of loans and the interest rate is increasing. Previously the interest rate was 7 – 8%. In 2018 the rate was 10%. In this situation, Should ACI continue the EMI or declare the default loan?

## 5. Proposed solutions and Changes:

- Since ACI has 4 diversified strategic business such as ACI Pharmaceuticals, ACI Consumer Brands, ACI Agribusiness and ACI Retail Chain. For this time being ACI Retail Chain (SWAPNO) is doing poor in business; on the other hand, the pharmaceutical segment made huge profit. Its profit was up 28.28% to TK 101.63 crore. So, my suggestion would be ACI should try to cover the loss using other business segment's profit.
- In the news article, we have noticed that ACI has increased taking short term loan and reduced long term loans. The company's short-term bank loans increased to Tk. 2,138.52 crore from Tk. 1,836.72 crore in a span of six months. At the same time, long-term loans decreased to Tk. 789.95 crore from Tk. 797.23 crore, according to the financial statement. At this situation, I believe that ACI should stop taking short term loans because since their situations is vulnerable and they could not pay the money to the lender in a short period of time; ACI might made bad debt and that raise a question about the reputation of ACI. So, if ACI long term loans that would be better in longer future. For long term loans, ACI will manage loans easily, because ACI has vast wealth for mortgage issue and any banks or financial institutions would be ready to give loans easily.
- ACI should make a clear goal for SWAPNO, need some fresh blood to operate the whole operation, supply chain process, product distribution and update the software. They upgrade the whole system, carefully monitor and control the operation and follow-up, if any problem occurs take some necessary steps.
- For SWAPNO my recommendation would be make sales target quarterly and try to achieve this target, try to maintain financial report quarterly; this would help SWAPNO to find out the area where the problem was happening. Try to figure out EPS, liquidity ratio, efficiency ratio, leverage ratio etc. ACI should maintain cash flow statement periodically; this will help ACI to run the day to day expenses and pay the interest of loans.
- SWAPNO should apply FIFO [first in first out] method for perishable products because these perishable products get damage very soon and hard to store in the warehouse. In this

way, they can reduce the storehouse cost and get relief from the damage of perishable products.

- SWAPNO should use 'JUST IN TIME' software to maintain and re-order their products and keep the products storehouse easily. If they could not track the product which product has more demand, which product is out of stock, which product is not selling, which products has seasonal demand; they cannot overcome losses and make profits.

ACI should try to cover the loss using their other business segment's profit.

ACI should stop taking short term loans; rather they could take long term loans.

ACI should engage fresh blood to operate the whole operation, supply chain process, product distribution and update the software.

SWAPNO should make sales target quarterly and maintain financial report quarterly.

ACI should figure out EPS, liquidity ratio, efficiency ratio, leverage ratio, cash flow statement periodically.

SWAPNO should apply FIFO [first in first out] method for perishable products.

SWAPNO should use 'JUST IN TIME' software to maintain and re-order their products and keep the products storehouse easily

***Figure 2: Proposed solutions for SWAPNO to turn back in business.***



## **6. Conclusions:**

After a comprehensive discussion on this topic, I tried to figure out the core issues, the reasons behind the issues, the central questions of the case. After evaluating all these, I have given some solutions and recommendation which best fit with the situation of ACI. If ACI follow the recommendation, it could overcome from this vulnerable situation to some extent. I believe, after going through this case study the readers in general get an overview of the problem, the issues, and the finance based recommendation. I tried to use my learning which I was taught in my whole BBA program and implementing those knowledge give some recommendation on this real life cases.

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