

THE collapse of Stone-Platt last week is already having adverse consequences beyond the circle of those immediately concerned, the employees, creditors and shareholders. For the episode has revealed substantial differences between the attitudes of the High Street banks and of the major investment institutions, such as Prudential Assurance and M and G Group, towards manufacturing companies that have got into trouble.

This means that the prospects for a number of household name companies that are on the sick list have suddenly worsened. Following the Stone-Platt debacle, it will be much harder to arrange the injections of fresh equity capital and new borrowings that are so often needed. The public recriminations, in which the banks were accused of being "bloody minded" and the major shareholders were told that they were "squealing," have further soured relationships.

Here is the answer to the debate, which has been running for many years, whether there is a "gap" in the City's facilities for financing business. Numerous experts and committees of experts have searched for it but failed to find it. There has always seemed to be sufficient money to meet industry's requirements. Now the gap has been discovered. It lies in the minds of bankers and investment managers, who badly misunderstand what each other can or cannot do.

The relationship between the directors of Stone-Platt and its bankers was also extremely unhappy for the last two years of the company's existence. The bankers felt let down by a series of missed forecasts. The senior management received the strong impression that it was mistrusted. This compounded the difficulties.

The first major dispute between the bankers and the investment institutions concerned the re-financing package announced in March 1981. The major shareholders put up £10 million of new equity while the group's borrowing facilities were maintained at £40 million. For a start, the four clearing banks led by Midland, and including National Westminster, Barclays and Williams and Glyn's, were unenthusiastic about having to take on the obligations of nine smaller

CITY COMMENT

Fatal quarrel which sank Stone-Platt

nearly £11 million. More seriously, they argued that a £40 million borrowing limit was £10 million too high.

And they wanted more control, perhaps in the form of a series of trigger clauses that would be activated should Stone-Platt underperform in any respect. The institutions would not agree: they thought Stone-Platt should have plenty of headroom to provide for unforeseen contingencies. They were also content to let the company's managers get on with their job without constantly peering over their shoulders. With Bank of England backing, the institutions won the argument.

Alas, Stone-Platt's performance was dismal. The March prospectus carried a cautious forecast that the company would break even in 1981. Privately the banks had calculated that there could be a loss of £3 to £4 million. In the event there was a net loss of £13.5 million, comprising a £1.8 million deficit at the trading level, nearly £6 million of interest and £8.3 million write offs. The worldwide market for the company's textile machinery subsidiaries situated in Lancashire had virtually collapsed. By the autumn it was obvious to everybody that the entire textile machinery company, which made a lot of money overseas as well as horrendous losses in Lancashire, should be sold.

Within limits

It was also decided to arrange a sale and leaseback on Stone-Platt's valuable Crawley site where the subsidiary making air conditioning systems for railways and

extremely dissatisfied. Because the company remained just within its borrowing limits, they could not intervene yet they could see that its condition was worsening. There was thus bound to be trouble when Stone-Platt put forward proposals for reorganising its finances in 1982. In any case, the banks' permission was required for the two sales because the security for their loans was affected.

Fresh capital

The Stone-Platt management argued that once the Lancashire loss-makers had gone and further realisations made, then the rest of the group would produce £90 million of sales and £6 million of trading profits in 1983, sufficient to cope easily with interest payments due to the banks. The directors were also able to say that their leading shareholders would once again put up fresh equity capital, perhaps £5 million or more. But while the institutions had faith, the banks were sceptical.

In the last weeks there was a minor quarrel between the banks and the institutions, then some shocks for everybody and finally a major dispute which was never resolved. The relatively small matter was what should happen to the nearly £5 million proceeds from the Crawley sale and lease-back. It was agreed that the banks should apply the whole of the £10 million net proceeds from the sale of the textile machinery business to reducing loans. But the company, with the support of the institutions, wanted to put £5 million back into the business.

The banks were unhappy. The unpleasant surprises were the news that the texturing

that 1982 profits would be £500,000 lower than had been predicted only three weeks earlier. And a warranty claim of over £1 million for equipment supplied to an American customer was received. Once again, thought the banks, the position is deteriorating before our eyes.

The major problem, however, was as follows. The fresh equity capital, which it hoped the institutional shareholders would supply, would not be available until the autumn of this year. Insurance companies, pension funds, unit trusts and the like, could not subscribe fresh funds unless two asset sales had been completed, a prospectus written and an extraordinary general meeting held.

These legal steps take a number of months. The banks, therefore, feared that if they agreed to fresh facilities they might be stranded. If anything went wrong between now and the autumn, the rights issue to shareholders would not take place. This doubting of their good intentions angered the investment institutions. Having said they would support a rights issue, they were, so to speak, on their honour to do it.

Instead, the banks gave an ultimatum. The company and its shareholders must find an additional £15 million of capital very quickly or receivers would be appointed. Over a desperate weekend, everything was tried. Cash was to be pulled in from the overseas subsidiaries. Debts were to be factored. Every employee up to and including directors was to take a 10 p.c. cut in pay. The major shareholders also did their bit, guaranteeing the value of one of the group's sites and offering to underwrite £2 million of debts.

All to no avail, for the banks were unimpressed. Stone-Platt was allowed to crash, the most serious casualty of the present recession, comparable in its way to the decision to let Rolls-Royce go under a decade ago.

The tragedy is this. The banks and the major shareholders never really talked to each other, face to face. The communication was largely carried on through third parties, via the company, via the merchant bankers, via the Bank of England. Had they come to understand each other's fears and