



Institute for Management and
Business Research (IMBRe)
Universiti Utara Malaysia

TC117-1

CREDIT CHALLENGES OF MESRA HOTEL

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This case was written by Nora Azureen Abdul Rahman and Norhafiza Nordin, Universiti Utara Malaysia. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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Case Synopsis

Salina Johan and her husband, Armizi Zulkifli, started to build Mesra Hotel in 2015. Being the owner and also the general manager of the hotel she was confident that the contractor would complete the work within the time frame agreed. Initially, the hotel project was expected to be completed just in one and a half years. However, now it had been going on for nearly two years. It was even worse when the work had been stopped for more than four months. At the moment, Salina had no idea when the project could be completed as the cost of completing the building had increased and the contractor demanded her to pay the progressive payment before the end of the month. Things were running smoothly before this. Satisfied with the success of their motel, Salina and her husband decided to expand their business by building a two-storey budget hotel in Alor Setar. The initial cost of building the hotel was estimated at RM950,000. She had invested all her savings and had also used cash from her other businesses, a grocery store and a 15-room motel, for the project. Unfortunately, an unforeseen problem occurred. The project had been beyond schedule due to lack of capital. The contractor threatened to terminate the project if she failed to make the payment as requested. The problem was everything had become expensive, while the income from the grocery store and motel had decreased. Salina was having a serious financial problem. She was running out of cash to pay the contractor and did not know the proper procedure to apply for a bank loan. This case is designed to guide the students to identify and prepare the documents needed in applying a business loan. In brief, the purpose of this case is to analyse the credit challenges faced by Mesra Hotel and to prepare all the necessary documents needed in the process of obtaining capital from a bank and other financing alternatives.

Introduction

Leaning back in her chair, Salina Johan, the owner cum general manager of Mesra Hotel, thought about her hotel project. The project had been beyond schedule and now she was facing problem with the contractor in charge. Her mind drifted to her discussion with the project contractor. It was already 7 pm when she received a phone call from the contractor. The contractor informed her that the project could not be continued unless she paid the progressive payment before the end of the month. "Today is 14 March 2016, meaning that I only have 14 days to prepare the money" sighed Salina. The initial cost of building the hotel was RM950,000 and all this while she had been paying according to the progress of the work done. Until now, she had paid more than 60 percent of the costs involved. She was very confident that the project would run smoothly as she had allocated RM1 million for the project; a spare of RM50,000 for contingency expenses. In addition to that, she had also allocated RM500,000 for the hotel room furniture, lighting and other hotel necessities. She had invested all her savings to the project. In fact, she had also used cash from her other businesses, a grocery store and a 15-room motel, for the project. "Why things do not happen as what I've planned?" sighed Salina in frustration. Everything had become expensive. The supplier charged her higher price for grocery products and hotel's necessities; using the implementation of goods and services tax (GST), inflation and depreciation of Ringgit Malaysia as excuses; while the motel guests had decreased for about 40 percent. "What should I do, the income from the grocery store and motel has decreased, the price of products has increased and now I am running out of cash to pay the contractor for the hotel project" she said sadly.

The Background

The history of Mesra Hotel began with the establishment of Mesra Motel in 2005. Renting a three-storey building owned by a cooperative known as MOCCIS (Malay Officers Cooperative Credit and

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