

CHAPTER - I

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CHAPTER I

INTRODUCTION

1:1 THE ENGINE OF GROWTH :

The Indian Engineering Industry has now truly emerged as a dynamic sector in the country's industrial economy. Indeed it has put India on the map of industrial world and given us a much needed self reliance in vital areas. Since Independence, it has gathered momentum and has passed through a steady transition in keeping with domestic needs and the requirements of the international markets. The Indian Engineering industry now accounts for 31% of the total production. From a modest beginning, the engineering industry now produces a very wide range of products like plant and machinery for steel, chemicals and fertilizers, cement plant, sugar and paper machinery, electrical and construction machinery, power generating transmission and distribution equipment, machine tools, railway rolling stock, commercial vehicles, earth moving equipment, leather, textile mill machinery and a large number of other industrial goods and consumer durables. The diversified and modern technological base has been developed through indigenous

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development and research combined with selective import of technology from abroad.

To day, the Indian engineering industry produces goods worth Rs.623 billion. It accounts for over 31 per cent of the total output of the country. The engineering industry's share in the country's export in 1989-90 was 12 per cent which amounted to export of goods worth Rs.32.8 billion. In absolute terms, this sector of the industry employs over 2.4 million people. At present investment in the engineering industry is estimated at over Rs.389 billion.

A study conducted by the Confederation of Engineering Industry, (CIE), reveals that the Government's liberalisation policies have been fully exploited by the industry. For example, out of every 100 foreign collaboration agreements signed 62 are accounted for by the engineering sector. At the same time, R & D outlays constitute among the highest, with 65.9 percent of total industry investment in R & D going into engineering.

As the engineering industry has been identified as one of the thrust areas for export promotion any

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set back in its performance will be a cause for anxiety at this critical juncture, when the country is facing a crisis in its balance of payments situation. In view of this, it is heartening to note that engineering exports are likely to meet such crisis near future.

According to the latest available data provided by the EEPC (Engineering Export Promotion Council) engineering exports in the first seven months of the current year had registered a 31 per cent growth compared to the same period last year. Against the largest of Rs.3400 crores (revised from 3100 crores) for 1990-91, export performance during the first seven months (April - Sept. 1990) has amounted to Rs.13,455 crores.

1:2 GENESIS AND GROWTH :

The Indian engineering industry made its beginning roughly in the mid-nineteenth century with wagon building and structural activities. However, it gained momentum after the adoption of Prof. P.C. Mahalanobis model of heavy capital goods-based growth strategy in the Second Five Year Plan and subsequent Plans. Since then India has marched ahead towards self-reliance in a variety of engineering equipment

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and is forging ahead on the export front. The products of engineering industry fall under the broad categories of capital goods and consumer durable goods.

The Indian engineering industry is also engaged in selling consultancy services and technical know-how to a number of African and Arab States, as well as in joint ventures as an equal partner with developed nations in several countries. In the post-independence era, the industry has not only achieved significant enlargement of production capacity, but also has attained a high degree of technical competence, sophistication and product diversification.

This impressive growth is, by and large, the result of planned industrialisation programmes under the national plans and the import substitution efforts it engendered. It may also be mentioned that the public sector has played a key role in the development of engineering industry in India; particularly in the fields of heavy engineering, heavy electircals, industrial machinery and machine tools. The giant engineering undertakings set up in the public sector have contributed a great deal

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to the development of core and key sectors of industry, which in turn, facilitated the over-all growth of the economy.

The uneven growth trends in the constituent sectors of the engineering industry point to several impediments that have hampered their progress. Towards the promotion of our national objectives of increased industrial production along with distributive justice, small and medium engineering units play a significant role. From the socio-economic point of view, the key-features of this sector are its low capital intensity and high employment potential. However, these units will have to make enormous efforts to achieve greater productivity.

A sectoral analysis of the engineering industry has indicated a mixed picture of the fortunes of the industry. Some sectors have shown commendable growth rate and foresee continuing growth, while there is cause for concern in other sectors.

The food processing equipment industry foresees a bright future for the food processing industry in the country specially in the area of fruit

processing. A number of Indian companies are already operating in the field, but there is concern over the tendency for import of complete plant and equipment, on project import basis.

This industry is of the view, that the indigenous manufacturing industry must get its rightful share in the supply of goods and services to major Indian Projects. This could best be done by joint working between the local manufacturers and the suppliers of know-how from abroad, in preference to turn-key imports for various projects. The indigenous industry is currently handicapped by the anomalies in the import duty structure, wherein the import duty on components in many cases is higher than the import duty on the finished product. The industry feels that it could face competition from abroad, if it is extended the facility of a rational three-tier import duty structure.

The food processing equipment industry also sees considerable scope for cooperation between the manufacturers in this sector in the SAARC member countries. Discussions are already on to the explore

possibilities of joint working in the area of food processing.

The pump industry - represented by the Indian Pump Manufacturers Association - foresees a good growth potential particularly for industrial pumps. The industry, which has experienced a growth rate of five per cent, expects the doubling of this growth in the industrial pumps area. On the other hand the prospects for growth in the area of agricultural pump sets is not very bright.

One of the key areas of concern of the Indian pump industry is the large import of pump-sets under project imports. The industry also feels that the government should closely scrutinise approvals for foreign collaboration, so as to ensure that there is no repetitive import of technology.

The industrial furnaces sector represented by the industrial furnace division of CEI, has witnessed a growth rate of about 10 per cent and capacity utilisation of around 75 per cent. However, as in many other sectors, there is concern about import of furnaces on project imports basis. This segment of the industry is making serious efforts at exports.

The secondary steel industry has had a rough time and has been plagued with shortage of scrap. One of the concerns of this industry has been the ad-valorem duty on scrap, and the worry about high price of sponge iron. The secondary steel industry is anxious to see the implementation of a three-tier duty structure to make the industry viable.

The alloy and special steel sector has performed relatively better, with a eight to nine per cent growth during the last year. However, even this sector is faced with the major problem of non-availability of mild steel scrap. The industry is also concerned about the effect of ad-valorem duty on items like nickel, where the international prices have been rising steadily. This industry also seeks a lower import duty on items, such as specialised refractories, which are not presently made in the country.

The iron foundry continues to suffer from shortage of pig iron particularly of the low phosphorous variety. As in the case of the secondary steel and alloy steel sector, the foundry industry has been pleading for adequate supplies of imported mild steel scrap.

On the cement machinery front, the picture is once again gloomy. This sector has been down in the last two years with tough internal competition and a poor global market. The industry hopes, that with the much needed modernisation of old cement plants, there would be an increased off-take of indigenous plant and equipment. The Industry is keen to explore the export market, but feels an adequate levels of CCS, are necessary and credit lines must be provided to countries to procure cement plants.

The rubber machinery is threatened seriously by continuing import of rubber machinery, ignoring the availability of adequate capacity within the county. This industry is also hurt by the import of second hand machinery.

The gensets sector is concerned by the import of gensets, even when local capacity and technology is available. There is over-capacity in the field of the compressed air industry. The export opportunities, at this point of time, are not very bright.

The air-conditioning and refrigeration industry continues to reel under the burden of heavy excise

duty. The organised sector is losing out to assemblers, leading to poor quality and performance of air-conditioning and refrigeration systems.

The upcoming medical equipment industry enjoys a large potential demand. However, at present most of the equipment is under OGL. The industry would like to see this policy reviewed. It would like to have the facility of deemed export benefits for supply of medical equipment to major health care projects in the country. In addition, the industry needs excise duties revised downwards.

The market for diesel engines upto to 10HP is shrinking and no growth is expected. On the other hand, in the higher HP range (upto 10,000 HP), the market is buoyant and industry is expected to have strong growth. One of the concerns of this industry, is the inadequate availability of ferrous casting of the right quality. In the long term this industry believes that it will have strong growth with the increased asset on housing and involvement of private sector in power generation, road building, development and maintenance of car parts, convention centres and other similar facilities.

DIESEL ENGINES :

The diesel engine industry is one of the important sectors of engineering industries. It provide the prime mover for vehicles and equipment, which are portable or mobile. Diesel engines find application in motor vehicles, agricultural machines, generating sets, fishing boats, ocean going vessels, earthmoving machinery, compressors, locomotives etc. The diesel engines manufactured in the country cover a wide range from 5HP to 10,000HP.

At present there are 34 units in the organised sector engaged in the manufacture of diesel engines.

POWER TILLERS :

There are five manufacturers licensed to manufacture Power Tillers. The total licensed capacity is 31,000 nos. per annum and the installed capacity is 16,000 nos. per annum. Over the years, capacity utilisation has been going down and due to low capacity utilisation, the price of power tillers has remained high.

AGRICULTURAL MACHINERY TRACTORS :

Nineteen units are in production for manufacture of agricultural tractors of differenet

ranges. The total licensed capacity at present is 1,22,300 nos. per annum. Most of the leading manufacturers have taken up the manufacture of small tractors of 25 HP and below to suit the needs of farmers having small land holdings. Tractors below 1800 cc engine capacity have been fully exempted from levy of excise duty.

SELF-PROPELLED HARVESTER COMBINES :

There are 8 units at present holding carry on Buisness license for the manufacture of self-propelled harvester combines. This is a sophisticated high technology machine, fitted with high capacity threshing mechanism combined with a matching cleaning and fast unloading system. The total annual capacity is 546 nos.

EARTHMOVING EQUIPMENT :

This is widely used in coal mining, land development and construction activities. There are at present 18 units engaged in the manufacture of various types and sizes of earthmoving equipment. With a view to attain improvement in the earthmoving machinery sector as a whole, a Development Council had been constituted.

MACHINE TOOLS :

Machine tools are considered as sinews of the industrial strength of the country. Machine tools are called mother machines as they produce basic tools of production for other industries.

The major users of machine tools are the engineering industry in general and automobile and also ancillary industries, power generation and electrical, industrial machinery, defence production units and railway workshops in particular. Since its inception about three decades ago, the machine tool industry in India has achieved a remarkable growth. As a result there are about 160 machine tools units in the organised sector (public & private) and about 300 units in the small scale sector.

The industry produces entire range of general purpose and special purpose machine tools and has also achieved the technological capability to manufacture machine tools of latest technology. The production range covers besides the conventional machine tools NC/CNC machine tools, machining centre, wire-cut EDM, metal forming presses etc.

TABLE No. 1:1

INDUSTRY AT A GALANCE

Number of Units :

Organised sector 160

Small scale sector 300

Vital statistics

(Estimates for 1990)

Production Rs. 699 crores.

Annual Growth 26 per cent

Imports Rs.225 crores

Exports Rs. 109 crores.

Apparent consumption Rs. 815 crores.

Product Range

Conventional machine tools NC/CNC machine tools, machining centres, wire cut EDM, metal forming presses, industrial robots, flexible manufacturing cells, laser cutting machine, etc.

Major users Engineering industry, automobiles, auto ancillary, power generation, electricals, industrial machinery, defence production, railway workshops.

TABLE No. 1:2

**PROJECTION FOR MACHINE TOOL PRODUCTION FOR THE
PERIOD 1990-91 to 1994-95**

(Rs. Crores)

Year	Total Production	CNC Machine Tool	Share of CNC (%)
1990-91	600	120	20
1991-92	690	140	20
1992-93	830	200	24
1993-94	1000	250	25
1994-95	1200	360	30

Recently the machine tool industry has also diversified into the manufacture of industrial robots flexible manufacturing cells, laser cutting machines and other advanced types of machine tools.

NC/CNC MACHINE TOOLS :

The introduction of CNC to machine tools is a recent phenomena in India and the major machine tools manufacturers have secured technical collaboration for making CNC machine tools. There are at present about 25 manufacturers engaged in the production of CNC machine tools in the country. The major production of CNC machine tools is in the categories of CNC turning centres, machining centres, CNC grinding machines and CNC special purpose machines. Many industrial units in the small and medium sector are keen to go in for the use of CNC technology, as it promises higher productivity, better quality and cost efficiency.

TABLE No. 1:3

**PRODUCTION OF CNC MACHINE TOOLS
(1985 to 1990)**

Year	Number	Value (Rs. crores)
1985	65	13.00
1986	93	19.00
1987	200	47.88
1988	282	69.92
1989	457	105.00
1990	560	137.00

1:3 INVESTMENTS :

Structural changes have taken place in the working of the machine tool industry in the last decade. The major machine tool manufacturers prefer to concentrate on development and manufacture of the main machines leaving production and supply of components, controls, accessories, electricals to the ancillary units and other industries. This has enabled the machine tool industry to generate larger turn over with less investment. During the 7th Plan period an investment of about 100 crores made in the machine tools sector has brought about increase in production by Rs.250 crore, thereby bringing the capital output ratio to 1:2. If the industry has to prosper and maintain a reasonably good rate of growth of 15% to 20% per annum, it is imperative that more incentives, fiscal and otherwise are offered for new entrepreneurs in machine tools. Such incentive could be in the form of long term finance at concessional rate of interest, higher rates of depreciation and investment allowance, nominal or no levies like excise, sales tax and octroi and liberal terms for attracting foreign investments. The Government of India introduced the Technology Upgradation Scheme-TUS for 5 sectors of capital goods

industry, which include machine tools. The scheme is being operated by the IDBI and provides for financial assistance at concessional rate of interest, bills rediscounting scheme and facility for import of capital equipment at concessional rate of duty of 35%/40%. However, until now only a few machine tool units have availed themselves of the benefits. The scheme was further liberalised in the Budget Proposals for the year 1989-90 to include cutting tools and commercial tool rooms.

One of the factors impeding the growth of the industry stems from the use of obsolete machinery by the user industries. Lack of quality control is another drawback facing the industry. Given the large number of small scale industries, such control is quite difficult. This has marred the reputation of the otherwise strong and longer lasting Indian machine tools. For reaching the higher production targets, and for meeting the changing consumption demand, substantial capital investment is called for. A special committee, appointed for formulating the perspective plan for the machine tool industry, estimates that about Rs.300 crore would have to be invested during the period 1983-84 to 1992-93.

The coming years will be a testing period for the Indian machine tool industry, as the effects of the numerous policy changes already effected and those in the pipeline, will start bearing results.

This turnaround in SAIL's performance has prompted the formulation of a modernisation-cum-expansion programme envisaging increase in crude steel capacity from the current 10.9 million tonnes to 14.5 million tonnes by 1994-95.

TABLE 1:4
PROJECTED TOTAL CAPACITY IN 1994-95
(Million tonnes)

	Investment	(Rs. crores)
Bakaro	4.50	1260
Bhilai	4.00	2800
Rourkela	2.00	2461
Durgapur	1.88	2688
IISCO	2.15	6030
Others	n.a	761
	<u>14.53</u>	<u>15000</u>

SOURCE ECONOMIC TIMES.

1:4 IMPORTS :

The import policy for machine tools for the 3 year period 1988-1991 was quite liberal with 170 machine tools and allied products on OGL list. It is estimated that the level of imports of machine tools is between Rs. 150 to Rs. 200 crore per annum. This mainly consists of specialised categories of grinding, boring, milling and CNC machine tools of higher technology.

1:5 EXPORTS :

Indian Machine Tools Manufacturers Association (IMTMA) is exploring the possibility of introducing a quality assurance scheme. According to IMTMA the scheme is designed to enhance the reliability of machine tools with required by major user industries, including defence units, railway workshop and automobile companies. The scheme is also aimed at giving a boost to export effort of the industry. The Eighth plan's tentative export target for machine tools is Rs.140 crores.

ENGINEERING EXPORTS :

The Engineering Export Promotion Council (EEPC) has exceeded the target of Rs.2,200 crores for 1989-90, registering a 40 per cent growth over 1988-89.

TABLE No. 1:5
EXPORT OF MACHINE TOOLS
(1985-1990)

Year	Export Value Rs.Crores
1985	30
1986	46
1987	70
1988	46
1989	80
1990	119

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TABLE No. 1:6

PRODUCTION, EXPORTS AND IMPORTS OF MACHINE TOOLS

(Rs. Crores)

Item/Year	1976	1980	1985	1990
Production	116.85	185.95	303.16	650.00
Imports	44.49	104.86	250.00	250.00
Exports	16.92	20.85	32.45	140.00
Domestic Consumption (Production + Imports - Exports)	144.42	269.96	520.71	760.00
Exports as % production	14.5	11.2	10.7	21.5
Imports as % consumption	30.0	38.8	48.0	32.9
Trade deficit (Imports - Exports)	27.57	84.01	217.55	110.00

SOURCE : ECONOMIC TIMES.

The EEPC had revised its export target for Rs.2750 crores to Rs. 3100 crores for 1990-91 based on a growth rate of 46 per cent. It had also prepared a long-term strategy paper, envisaging a target of Rs.5700 crore by 1994-95 and Rs. 11,800 crore by the turn of the century.

Export of engineering goods in 1989-90 were of the order of Rs.2350 crore. Category-wise export figures are available as for the first 10 months - April 1990 to January 1991. The capital goods group recorded an increase of 47 per cent at Rs.920 crore compared with Rs.628 crore in the same month of 1989-90. Export of primary iron and steel based item, on the other hand, recorded an increase of 25 per cent at Rs. 365 crore against Rs.292 crore.

Overall exports during April - August 1991 registered an increase of around 38 per cent compared to the similar period in the previous year. The growth in dollar terms worked out to be nearly 25 per cent. Hence it is a safe guess the engineering exports are likely to surpass the revised target of Rs.5,000 crore set for the year 1991-92.

Exports to developing countries recorded a rise of over 43 per cent, while exports to developed

TABLE No. 1:7
EXPORT TREND IN MACHINE TOOLS & ENGINEERING GOODS
(Rs. Crores)

Year	Machine tools Exports	Engineering goods Exports	All India Exports	% Share of Machine tools exports to Engineering goods exports	All India Exports
1980-81	24.93	814.17	6711	2.0	01
1981-82	24.50	1046.99	7806	2.3	03
1982-83	32.65	1011.30	8803	3.2	04
1983-84	26.75	1000.00	9771	2.7	03
1984-85	23.50	1150.00	11744	2.0	02
1985-86	32.50	1000.00	10895	3.3	03
1986-87	67.00	1043.73	12452	6.4	05
1987-88	66.50	1105.00	15674	6.0	04
1988-89	68.00	1589.00	20302	4.3	03
1989-90	80.00	2350.00	27681	3.4	03
1990-91	140.00*	3400.00 (T)	36000 (T)	4.1	04

Note : * Pertains to Jan. - Dec. 1990; (T) Target.

countries increased by 32 per cent. Exports of engineering goods to East Europe, on the other hand were up by 24 per cent.

The developing countries include markets in South-East Asia, West Asia and Africa. The developed countries, on the other hand include the US, West Europe, Australia and Japan, East Europe is ^aminly represented by the Soviet Union.

1:6 AIMS AND OBJECTIVES OF THE STUDY :

The researcher has undertaken the study of Financial Management practices in Kirloskar Brothers Limited (KBL) by keeping certain specific objectives in mind they are -

- 1) To make an analytical study of the revenue of KBL during the period from 1988-89 to 1992-93.
- 2) To analyse and study the expenditure pattern of KBL during the above said period.
- 3) To know the sources and uses of fund of KBL during the period from 1988-89 to 1992-93.
- 4) To study the overall financial performance of KBL during the period by using ratio analysis technique.

- 5) To suggest the ways and means to overcome the weaknesses, if any.

1:7 SOURCES OF INFORMATION AND METHODOLOGY :

The present study is dependent upon the data collected through primary and secondary sources, but to a large extent secondary sources were used. The secondary data is made available from -

- 1) Reports and Accounts of KBL.
- 2) Journals, Books and other published materials regarding the subject.
- 3) To clear the theoretical concepts various books regarding the subject are referred.

Primary data is collected through discussion with the AVP, KBL and his able and efficient team of accounts managers.

METHODOLOGY :

Case study method is selected for the purpose of this study. In this study the organisation is assumed as a representative sample of the organisation working on same line.

Case study method is a study of life situation of the social unit. The method is very popular because it consists of careful and complete observations and qualitative analysis of a social unit. Unit may be a person, a family or an institution.

The researcher is studying the particular aspect i.e. the financial management practices of Kirloskar Brothers Limited. Therefore, an indepth detailed and systematic study is emphasised on the full analysis of a limited number of events or conditions and their relationship in the group is made. To accomplish this purpose case study method is the most appropriate. Hence, this is selected here.

1:8 SCOPE OF THE STUDY :

Finance may be said to be the circulatory system of the economic body, making possible the needed co-operation between the many units of activity. In an organism composed of a myriad of separate enterprises; each working for its own end but simultaneously making a contribution to the system as a whole, some force is necessary to bring about direction and co-ordination. Financial

management is the system that produces this result. Financial management is the application of planning and control on the function of finance. An examination of this process reveals the significance of business finance and the role it plays in any organisation.

For this purpose, the researcher is going to study the financial management ^{Practice} of the Kirloskar Brothers Limited (KBL) for the period from 1988-89 to 1992-93 by giving special emphasis on the income and expenditure pattern, sources and uses of fund and overall performance through ratio analysis.

1:9 LIMITATIONS OF THE STUDY :

While conducting the study of the financial management of KBL, the data used is of secondary nature i.e. reports and accounts published by the KBL which contains maximum information about the financial affairs no doubt, but it is not fully adequate to cover the study in its fullest sense.

1:10 PLAN OF THE STUDY :

The entire study of the financial management of KBL is divided into five chapter.

FIRST CHAPTER contains introduction aims and objectives of the study. Sources of information for the study, research methodology selected in the study scope and limitation of the study and research design.

SECOND CHAPTER pertains to the profile of Kirloskar Brothers Limited, Kirloskarwadi.

THIRD CHAPTER deals with theoretical background of the study.

FOURTH CHAPTER contains the presentation and analysis of the data collected by the researcher regarding various aspects of the financial management practices of Kirloskar Brothers Limited, Kirloskarwadi.

In the FIFTH CHAPTER findings and suggestions of the study are given.

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