

CHAPTER III
FINANCIAL
POSITION OF FOUNDRY INDUSTRY

- 3.1 Introduction
 - 3.1.1 Meaning of finance
 - 3.1.2 Meaning of SWOT Analysis
 - 3.1.3 Financial SWOT Analysis
- 3.2 Need of Finance.
 - 3.2.1 Owned Capital
 - 3.2.1.1 Proprietorship
 - 3.2.1.2 Partnership
 - 3.2.1.3 Private
 - 3.2.1.4 Co-Operative
 - 3.2.2 Borrowed Capital
 - 3.2.2.1 Proprietorship
 - 3.2.2.2 Partnership
 - 3.2.2.3 Private
 - 3.2.3.4 Co-Operative
- 3.3 Nature of Finance
 - 3.3.1 Working Capital
 - 3.3.2 Fixed Capital
- 3.4 Strong Financial Position
 - 3.4.1 Sources of Working Capital
 - 3.4.2 Proportion of Turnover to Investment
 - 3.4.2.1 Average Turnover
 - 3.4.2.2 Average Investment

CHAPTER III
FINANCIAL
POSITION OF FOUNDRY INDUSTRY

1.1 INTRODUCTION:-

In this chapter, an attempt is made to highlight the strong financial position of the foundry industries. Strong financial position is the 'S' of SWOT Analysis. That is financial strength of the foundry industry.

Foundry industry is one type of business. Every business requires finance. The success of every business is depends on availability of adequate Finance in time. Without adequate finance no business can perform its business activities in right manner. Hence strong financial position is the base of every business in general and foundry industries in particular.

3.1.1 MEANING OF FINANCE:-

Finance is rightly termed as Science of Money applied to business when needed. Financial management is an integral part of business administration and ranks equally in importance with other key result areas such as production and marketing. The fundamental objectives of every business or industry are survival and growth. It could be said that all objectives centre around economic objectives which means maximization of profits. Financial management plays a major role in fulfilling the functions like analyzing and forecasting financial needs, managing working capital, planning the capital structure etc.

3.1.2 MEANING OF SWOT ANALYSIS:-

Business firms undertake SWOT analysis to understand their external and internal strengths and weaknesses. SWOT, which is the acronym for strengths, weaknesses, opportunities and threats, is also known as WOTS-UP or TWOS analysis. Through such an analysis, the strengths and weaknesses existing within an organization can be matched with the opportunities and threats so that an effective strategy can be formulated. The business has to conduct its activities in business environment and that environment divides into two types namely- Internal Environment and External Environment.

The external environment includes all the factors outside the organization or industry which provide opportunities or pose threats to the organization. The internal environment refers to all the factors within an organization which import strengths or causes weaknesses the industry. These four factors describes as follows:-

- 1)A Strength: -Strength is an inherent capacity which an industry can use to gain different advantages.
- 2)A Weakness: - A weakness is an inherent limitation or constraint which creates disadvantages to the firm or industry.
- 3)An Opportunity: -An opportunity is a favorable condition in environment which enables the industry to consolidate and strengthen its position.
- 4)A Threat: -A Threat is an unfavorable condition outside the industry which creates a risk, or causes damage to the industry. Hence proper analysis of these components for survival and growth of industry is require.

Financial analysis primarily deals with the interpretation of the financial data incorporated in the proforma financial statements and the presentation of the economic facts in such a form as to make a comparative evaluation/appraisal of projects. In other words, it is mainly concerned with the development of the projects financial profile.

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3.1.3 FINANCIAL SWOT ANALYSIS:-

Financial analysis primarily deals with the interpretation of the financial data incorporated in the proforma financial statements and the presentation of the economic facts in such a form as to make a comparative evaluation/appraisal of projects. In other words, it is mainly concerned with the development of the projects financial profile. Financial analysis deals not only with the financial aspects of a project but also with its operational aspects. Its main purpose is to establish whether the project would enable to active the objectives for which it is undertaken.

Financial analysis defined as the “Process of discovering economic facts about an enterprise and/or a project on the basis of an interpretation of financial data. It can provide an insight into two important areas of management return on investment and soundness of company’s financial position.

In this way financial SWOT Analysis means analysis of financial strengths, weaknesses, opportunities and threats.

What are the financial strengths and weaknesses of particular foundry industry what are the opportunities and threats faced by foundry industries. This analysis is made from the financial statements of foundry industry, scheduled questionnaire and personal interviews of owners and managers of foundry industry in Palus area.

3.2 NEED OF FINANCE:-

Finance is a life blood of any industry or business. Without finance funds it can not operate its operations properly and regularly, finance is provision of money as and when it is needed. It is needed for the production of goods and services. And also for the their distribution. The efficiency of activities dependence on the efficiency of finance function.

Finance is very important for conduction business or industrial activity. Basically two types of finance needed for every industry or business that is

- i. Owned Capital
- ii. Borrowed Capital

3.2.1 OWNED CAPITAL:-

Owned capital is the basic capital which is introduced by industrialist. In foundry industries no. of industrialist introduces their own capital without assistance from bank, financial institutions or any other source. So this capital called Owned Capital.

Following Table No. 3.1 shows the how many foundry industrialist introduces their own capital.

3.2.1.1 Proprietorship:-

As per the survey, proprietorship type industries are 5 and they invested their own capital in following range.

TABLE NO. 3.1

RANGE OF INVESTMENT OF OWNED CAPITAL

Sr. No.	Range of Investment(Rs. in lacks)	No. of units	Percentage
1	5 to 10	4	80%
2	11 to 15	1	20%
3	Above 16	-	-
	Total	5	100%

As per the survey out of 15 foundries there are five foundries (33.34%) are of proprietorship type and out of them 4 foundries (80%) invested their own capital between 5 to 10 lacks and only one industry (20%) invested between 11 to 15 lacks.

3.2.1.2 Partnership:-

As per the survey there are 7 (46.66%) foundries are of Partnership type. In these foundries partners introduces their own capital as per the partnership deed. Following table No. 3.2 shows information about it.

TABLE NO. 3.2

RANGE OF INVESTMENT PARTNERSHIP FOUNDRIES.

Sr. No.	Range of Investment (Rs. In lacks)	No. of Units	Percentage
1	No. Investment	1	14.3%
2	1 to 5	3	42.8%
3	6 to 10	1	14.3%
4	11 to 15	1	14.3%
5	16 to 20	-	-
6	21 to 25	1	14.3%
	Total	7	100%

Above table clears that one foundry (14.3%) not invested its owned capital (It took other business assistance (borrowed) for capital investment). 3 foundries (42.8%) out of 7 invested their owned capital between 1 to 5 lacks. One foundry (14.3%) invested between 11 to 15 lacks and another one foundry (14.3%) invested between 21 to 25 lacks. This owned capital is shared by partners in certain percentages as per partnership deed.

3.2.1.3 Private:-

There are 2 foundries (13.34%) in private company. In these foundries the owned capital is introuduced by its members who act as Board of Direcotrs. Following table no. 3.3 shows information about range of investment of owned capital by its members or Board of Directors.

TABLE NO. 3.3
RANGE OF OWNED CAPITAL INVESTED BY PRIVATE
FOUNDRIES.

Sr. No.	Range of Investment (Rs. In Lacks)	No. of Units	Percentage
1.	5 to 10	2	100%
	Total	2	100%

Above table clears that 2 foundries are of private Ltd and their investment of owned capital ranges between 5 to 10. lacks.

3.2.1.4 Co-operative :-

As per the survey out of 15 foundries there is only one foundry (6.66%) in the co-operative form and the investment in share capital is of Rs. 52 lacks which collected from its members.

3.2.2 BORROWD CAPITAL:-

For conduction business activities owned capital is not sufficient. In that case industrialist borrows required from sources like bank, financial institutions, money lenders, friends, etc. that capital is called Borrowed Capital.

3.2.2.1 PROPRIETORSHIP:-

As already seen that there are 5 foundries (33.34%) proprietorship form following table no. 3.4 shows the range of borrowed capital invested by proprietorship foundries:-

TABLE NO. 3.4
RANGE OF BORROWED CAPITAL INVESTED BY
PROPRIETORSHIP FOUNDRIES.

Sr. No.	Range of Investment (Rs. In lacks)	No. of Units	Percentage
1	5 to 10	1	20%
2	10 to 15	2	40%
3	15 to 20	2	40%
	Total	5	100%

From the above table, it is clear that out of 5 foundries only one foundry (20%) borrows between 5 to 10 lacks, and another 2 foundries borrows between 10 to 15 lacks and remaining 2 foundries (40%) borrows between 15 to 20 lacks.

3.2.2.2 Partnership :-

Out of 15 foundries there are 7 foundries (46.66%) are in Partnership form and table No. 3.5 shows information about range of borrowed capital invested by Partnership foundries.

TABLE NO. 3.5
RANGE OF BORROWED CAPITAL BY PARTNERSHIP
FOUNDRIES

Sr. No.	Range of Capital	No. of Units	Percentage
1	5 to 15	3	42.8%
2	16 to 25	2	28.8%
3	26 to 35	-	-
4	36 to 45	-	-
5	46 to 55	-	-
6	56 to 65	1	14.2%
7	Not Borrowed	1	14.2%
	Total	7	100%

As per the above table no. 3.5, 3 (42.8%) foundries borrows capital between 5 to 15 lacks, 2 foundries (28.8%) between 16 to 25 lacks. 1 foundry (14.2%) between 56 to 65 lacks and remaining one foundry (14.2%) not borrows capital.

3.2.2.3 Private :-

There are 2 foundries in Private form and table no. 3.6 shows information about range of borrowing capital of Private form foundries.

TABLE NO. 3.6
RANGE OF BORROWING CAPITAL BY PRIVATE LTD.
FOUNDRIES.

Sr. No.	Range of Capital(Rs. In Lacks)	No. of Units	Percentage
1	10 to 20	1	50%
2	21 to 30	1	50%
	Total	2	100%

So above table clears that one (50%) foundry borrowers capital between 10 to 20 lacks and another foundry between 21 to 30 lacks.

3.2.2.4 CO-OPERATIVE:-

As per the survey conducted by researcher there is only one foundry (6.66%) is in co-operative form and its borrowing capital is Rs. 40 lacks

3.3 NATURE OF FINANCE:-

The core and central part of every business or industry is the finance. The most important aspect of finance is its uses and application of funds. The funds may be applied for the management of fixed as well as current assets. The fixed assets may be either purchased outright or rented or obtained on leasing basis. The amount invested in current assets keeps on revolving.

So the finance or funds which are used or applied for fixed assets the funds are called fixed capital.

And the finance or funds which are used or applied for current assets the funds are called working capital.

So the nature of finance which is required for foundry industry is of two types

- i) working capital
- ii) fixed capital

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3.3.2 WORKING CAPITAL:-

Working capital is the capital which is applied for managing the current assets such as raw material or inventories, sundry debtors, cash & bank balance etc. so it is regarded as the lifeblood of foundry industry. Adequate provision of working capital ensures the financial solvency of business enterprise.

Working capital means it is that portion of capital which represents the surplus of current assets over current liabilities.

According to Mr. Hoaglan, "Working Capital is descriptive of that capital which is not fixed. But more common use of the working capital consider it as difference between the book value of current assets and current liabilities.

According to Gerestenberg, "working capital or circulating capital means current assets of the company that are changed in the ordinary course of business. from one form of another.

For example, from cash to inventories, inventories to receivable and receivables to cash. As per the survey all the foundry industries require working capital. Table NO. 3.7 Shows range of working capital required per month for foundry industries.

TABLE NO. 3.7
RANGE OF WORKING CAPITAL REQUIRED PER MONTH.

Sr. No.	Range of Requirement (Rs. In lacks)	No. of Units	Percentage
1	5 to 10	2	13.3%
2	11 to 20	3	20.0%
3	21 to 30	4	26.7%
4	31 to 40	5	33.3%
5	41 to 50	1	6.7%
	Total	15	100

The survey indicates that the requirement of working capital is high foundry industry.

Out of 15 foundries only two (13.3%) foundries requires working capital between 5 to 10 lacks per month. 3 industries (20%) requires working capital between 11 to 20 lacks, 4 industries (26.7%) requires working capital between 21 to 30 lacks and 5 foundries (33.3%) requires working capital between 31 to 40 lacks and remaining one industry (6.7%) requires working capital 41 to 50 lacks.

The requirement of working capital is given for per month.

3.3.3 FIXED CAPITAL:-

Every industry has to lock up its capital in the acquisition of fixed assets. Fixed capital stands for that amount of capital which is required for acquiring fixed assets, fixed assets such as land, building, plant Machinery, power installation, etc. fixed capital means the capital which is meant for meeting the permanent or long-term needs of business. It is required for the acquisition of those assets used over a long period.

long-term needs of business. It is required for the acquisition of those assets used over a long period.

Table no. 3.8 shows that the range of amount invested in fixed assets by the foundry industries.

TABLE NO.3.8
RANGE OF AMOUNT INVESTED IN FIXED CAPITAL.

Sr. No.	Range of amount invested (Rs. In lacks)	No, of units	Percentage
1	10 to 50	2	13.3%
2	51 to 100	6	40.0%
3	101 to 150	2	13.3%
4	151 to 200	5	33.4%
	Total	15	100%

The survey indicates that, out of 15 foundries 2(13.3%) foundries invested between 10 to 50 lacks in fixed assets, 6 (40%) foundries invested between Rs. 51 to 100 lacks, 2 industries (13.3%) invested in fixed assets between 100 to 150 lacks and 5 foundries (33.4%) invested Rs. 150 to 200 lacks in fixed assets.

3.4 STRONG FINANCIAL POSITION:-

Financial position means the position of current assets and fixed assets of a foundry on a particular date. The positive finance position or strong financial position is the result of number of factors that are owned capital more that borrowed capital, sufficient position of working capital and fixed capital.

liabilities sufficient working capital means maintaining essential level working capital for conduction industrial activities.

It is already seen in Table No. 3.7 the requirement of working capital foundry industries.

The requirement of working capital for foundries is very high. And requirement is satisfied by way of different types of loan.

3.4.2 SOURCES OF WORKING CAPITAL:-

For knowing the sources of working capital which satisfies requirement of working capital multiple choices were given industrialist. Table no. 3.9 shows the sources of working capital and frequency of practice followed by industrialist to satisfy the need of working capital.

TABLE NO. 3.9
SOURCE OF WORKING CAPITAL

Sr. No.	Sources	No. of Units	Percentages
1	Bank	15	100%
2	Friends & Relatives	1	6.6%
3	Money Lenders	-	-
4	Govt. Agencies	1	6.6%
5	Other Business Assistance	1	6.6%

* Multiple Responses permitted.

Above table clears that all foundries (15,100%) satisfies their need working capital through bank and one foundry (6.6%) satisfies the need working capital also through the other business assistance out of 15 foundrie

Above table clears that all foundries (15,100%) satisfies their need of working capital through bank and one foundry (6.6%) satisfies the need of working capital also through the other business assistance out of 15 foundries 1 foundry (6.6%) take assistances of friends and relatives and another one (6.6%) takes the assistance of Govt. agencies.

TABLE NO. 3.10
PRACTIES FOLLOWED FOR WORKING CAPITAL

Sr. NO.	Form of Loan	No. of Units	Percentage
1	Cash Credit	15	100
2	Bill Discounting	2	13.3
3	Bank Guarantee	1	6.6
4	Term Loan	4	6.6
5	Pledge	1	6.6
6	Letter of Credit	2	13.3
7	Overdraft	-	-

Multiple responses permitted

Table No. 3.10 clears that number of practices followed by all industrialist for satisfying working capital need. For that purpose researcher provided multiple responses.

All 15 foundries (100%)uses cash credit type for satisfying working capital need. 2 industrialist (13.3%) uses bill discounting 1 foundry(6.6%) uses bank guarantee, 4 (26.6%) foundries uses Term loan, one (6.6%) foundry uses pledge and two foundries (13.3%) uses letter of

So it can be concluded that mostly the foundries are financially strong in the case of working capital.

Researcher takes only working capital aspect because working capital is the most important part of foundry industries.

3.4.3 PROPORTION OF TURNOVER TO INVESTMENT:-

3.4.3.2 Average Turnover:-

Annual turnover of various units taken for research period. 1997-2007. Researcher has taken the Average annual turnover of all units for study period (1997-2007). Average turnover is calculated by following method.

Average Turnover: - $\text{Total Turnover of all units} / \text{no. of units}$

Table no. 3.11 shows the information about the average turnover during the 1997-2007

TABLE NO. 3.11
AVERAGE TURNOVER FOR 1997-2007

Sr. No.	Year	Average Turnover(Rs. In Lacks)	No. of Units	Percentage
1	1997-98	126	6	40%
2	1998-99	178	6	40%
3	1999-2000	154	6	40%
4	2000-2001	144	8	53.3%
5	2001-2002	168	9	60%
6	2002-2003	146	10	66.6%
7	2003-2004	153	10	66.6%
8	2004-2005	182	11	73.3%
9	2005-2006	173	13	86.6%
10	2006-2007	232	15	100%

The above table clears that during the year 1997-98 there were only six foundries were established their average turnover was Rs. 126 Lacks. In the year 1997-98, 1998-99 there were also 6 foundries established and their average turnover was Rs. 178 lacks and 154 lacks respectively. During the year 2000-01 no. of units increased from 6 to 8 and turnover comes down to Rs. 144 lacks. The no. of units in 2001-02 increased to 9 and turnover for that period was RS. 168 lacks. During the year 2002-03 and 2003-04 the no. of units established was 10 and their average turnover was Rs. 146 lacks and 153 lacks respectively. During the year 2004-2005, 2005-2006 no. of units was 11 and 13 respectively and their average turnover was Rs. 182 and 173 lacks. And during the

3.4.2.2 AVERAGE INVESTMENT:-

Every foundry has to make investment in raw material, cash, labour to know the annual investment researcher takes the investment of working capital in foundries per year. And takes the average investment of all foundries during the study period (1997-2007).

The formula used for calculating the average investment:-

$$\text{Average Investment} = \text{Total Investment by units} / \text{no. of units}$$

Table no. 3.12 shows the information about average investment in foundries during 1997-2007

TABLE NO. 3.12
AVERAGE INVESTMENT FOR 1997-2007

Sr. No.	Year	Average Investment(Rs. In Lacks)	No. of Units	Percentage
1	1997-98	120	6	
2	1998-99	150	6	
3	1999-2000	170	6	
4	2000-2001	120	8	53
5	2001-2002	150	9	
6	2002-2003	170	10	67
7	2003-2004	160	10	67
8	2004-2005	170	11	73
9	2005-2006	170	13	87
10	2006-2007	200	15	100

(Above table clear that during the year 1997-98, 1998-99, 1999-2000 out of 15 foundries only 6 (40%) foundries were established and their annual investment were Rs. 120,150,170 lacks respectively. In the year 2000-2001

Above table clear that during the year 1997-98, 1998-99, 1999-2000 out of 15 foundries only 6 (40%) foundries were established and their annual investment were Rs. 120,150,170 lacks respectively. In the year 2000-2001 number of units increased to 8 (53.3%) and average investment was Rs. 120 lacks. During the year 2001-2002 no. of units were 9 (60%) and their average investment were Rs. 150 lacks. During the year 2002-2003 and 2003-2004 no. of units were 10 (66.6%) respectively and their investment were Rs. 170 and 160 lacks. During the year 2004-2005 the no. of units were 11 (73.3%) and their investment were Rs. 170 lacks. And during the 2005-2006, 2006-2007 no. of units established was 13 (86.6%) and 15 (100%) respectively and their average investments were Rs. 170,200 lacks respectively.

TABLE NO. 3.13
PROPORTION OF AVERAGE TURNOVER TO AVERAGE
INVESTMENT FOR 1997-2007

Sr. No.	Year	Proportion
1	1997-98	1.1:1
2	1998-99	1.5:1
3	1999-2000	1:1.1
4	2000-2001	1.2:1
5	2001-2002	1.1:1
6	2002-2003	1:1.1
7	2003-2004	1:1.1
8	2004-2005	1.07:1
9	2005-2006	1.01:1
10	2006-2007	1.1:1

The above table no. 3.13 clear the ratio of Average turnover to average investment. It is said that the turnover proportion must be high than proportion of investment. During the year 1997-98, 1998-99 the ratio of turnover to investment is positive that is 1.1:1 and 1.5:1 respectively. In the year 1999-2000 the ratio of turnover to investment is 1:1.1 that is in this year investment is more than turnover. Again during the year 2000-2001, 2001-2002 ratio was positive that was 1.2:1 and 1.1:1 respectively. But during the year 2002-2003 and 2003-2004 ratio becomes negative that was 1:1.1 and 1:1.1 respectively but after that for successive three years that are 2004-2005, 2005-2006 and 2006-2007 was positive that was 1.07:1, 1.01:1, and 1.1:1 respectively.

The reasons for the negative turnover to investment ratio was decrease in demand, hike in prices of raw material etc.

For calculation of Proportion of Average Turnover to Average Investment researcher use the following formula-

Average Turnover to Average Investment = Average Turnover / Average Investment.