

CHAPTER IV

OPPORTUNITIES FOR FOUNDRY INDUSTRY

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CHAPTER IV

OPPORTUNITIES FOR FOUNDRY INDUSTRY

4.1 INTRODUCTION-

The researcher made study of financial SWOT analysis of foundry industries. In previous chapter researcher tries to discover the stone financial position of foundries on the basis of working capital and proportion of turnover to investment.

In this chapter an attempt is made to highlight the opportunities available for foundry industries for better development or foundries.

An opportunity is a favorable condition in environment which enable the industry to consolidate and strange then its position. Opportunities includes in the factors of external environment. The external environments provide opportunities to foundries or pose threats in their better development.

In this chapter an attempt is made to highlight the factors of external environment which provides or creates the opportunities to foundry industries for their development.

4.2 BETTER OPPORTUNITIES-

As it is already seen than opportunities are related to the external environment of foundries. External environment means the environment which externally affects the foundries and it is not controllable. This external environment provides different opportunities.

The opportunities are better ways available foundries for their development and attainment of their goal.

So in this following successives points researcher tries to analyze the opportunities available for foundries.

4.2.1 PURPOSE TO START FOUNDRY-

Researcher provides scheduled questionnaire with multiple choices to the industrialist to collect necessary information with this questionnaire researcher tries to understand the purpose of different industrialist to start the foundry industry in Palus area.

Table No. 4.1 shows the purpose of starting foundry and no. of units.

TABLE NO. 4.1
PURPOSE TO START FOUNDRY

| Sr. no. | Purpose | No. of units | Percentage |
|---------|---|--------------|------------|
| 1 | To Learn the money | 4 | 26.6 |
| 2 | Good Business prospects | 15 | 100 |
| 3 | Required little skills. | 7 | 46.6 |
| 4 | Good profits in this business | 15 | 100 |
| 5 | Adequate local availability of raw material | – | – |
| 6 | To be a entrepreneur. | 2 | 13.3 |

Multiple Responses permitted

In the survey, the researcher comes to know that the owners, partners or members of foundry industry are family members, relatives or friends and with each others inspiration they start foundry industry.

Table No. 4.1 clears the purpose to start the foundry industries as per the sequential responses given by the founders, but of 15 foundries there are 4 (26.6%) founders start the foundry to earn money. 7 (46.6%) founders start the foundry because it also requires lower skills and 2(13.3%) establishes foundry to be a entrepreneur. But as per the responses given by founders all the foundries 15(100%) established with

the purpose of that, this business have good prospects in future and also good profits can be earned in this business.

It is concluded from table No. 4.1 that the opportunities or prospects for the development of foundry industries are very high as per the owners of foundry industries.

4.3 SOURCES OF FUNDS-

Funds are required for smooth conduct of industrial activities. The founders' raised different types of funds from different sources. Generally for conducting activities of foundries short term, medium term and long term funds are required.

Short term funds are required for management of working capital and long term funds are required for management of fixed capital or investment in fixed assets.

4.3.1 SOURCES OF WORKING CAPITAL-

As per the information given by the owners of foundries they required more working capital than fixed capital. Fixed capital is required for initial investment only but for conducting daily activities of foundries they require more working capital.

So to satisfy the need of working capital different sources are available table no. 4.2 shows information of it.

TABLE 4.2
SOURCES OF WORKING CAPITAL

| Sources used by foundries and proportion of Working Capital in Percentage | | | | | | | | | | | |
|---|-----------------|------------|-----------------------|------------|-----------------|------------|---------------------|------------|------------------|------------|----------|
| Year | Bank | | Friends and relatives | | Money lenders | | Government Agencies | | Other Assistance | | Business |
| | Number of units | Proportion | No. of Unites | Proportion | Number of units | Proportion | Number of units | Proportion | Number of units | Proportion | |
| 1997-1998 | 5 | 100% | 1 | 50% | - | - | - | - | 1 | 50% | |
| 1998-1999 | 6 | 100% | - | - | - | - | - | - | - | - | |
| 1999-2000 | 6 | 100% | - | - | - | - | - | - | - | - | |
| 2000-2001 | 7 | 100% | 1 | 10% | - | - | - | - | 1 | 70% | |
| 2001-2002 | 9 | 100% | - | - | - | - | 1 | 20% | - | - | |
| 2002-2003 | 9 | 100% | 1 | 80% | - | - | - | - | 1 | 80% | |
| 2003-2004 | 9 | 100% | 1 | 20% | - | - | - | - | 1 | 80% | |
| 2004-2005 | 10 | 100% | - | - | - | - | - | - | - | - | |
| 2005-2006 | 12 | 100% | | | - | - | 1 | 20% | 1 | 80% | |
| 2006-2007 | 14 | 100% | 1 | 50% | - | - | 1 | 20% | 1 | 30% | |

Multiple Responses Permitted

The above table clears that there are number of sources available to foundry industry to raise the working capital, namely bank, friends and relatives, government agencies, and other business sources. In the year 1997-1998 there were only 6 foundries were establishment out of them 5 foundries satisfy their working capital need 100% through bank and one foundry areas working capital 50% from friends and relatives and 50% from other business sources. In the year 1998-99 and 1999-2000 all the foundries 6 areas working capital 100% through banks. In the year 2000-2001 out of 15 foundries, 7 foundries areas working capital through banks and 1 foundry areas its working capital need 10% through friends and relatives, 20% through government agencies and 70% through other business assistance. In the year 2002-2003 and 2003-2004 foundries established out of them 8 foundries areas working capital through banks and remaining one foundry arises its working capital 10% through friends and relatives and 80% through other business assistance in the year 2004-2005 total 10 foundries established and all areas working capital 100% through banks. In the year 2005-2006 and 2006-2007 total 13 and 15 foundries respectively established. Out of 13 foundries, 12 foundries areas working capital through banks and other 1 foundry areas 20% working capital through other business sources and in the year 2006-2007 our of 15 foundries 14 foundries raised working capital through banks and 1 foundry raised 50% from friends and relatives, 20% from government agencies and 30% other business assistance.

It is clear from the above information that there are number of opportunities available for foundries to raise working capital. In this case banks play the vital role. Researcher takes the aspect of foundries

because while conducting the survey it is found that working capital is the most important aspect of the foundries.

4.5.2 SOURCES OF FIXED CAPITAL-

Fixed capital is required for the management of fixed assets. Fixed assets such as land and building, plant, machinery, power installation and other long term investments.

Investment in these assets is the long term investment and for that purpose lots of funds are required for making the investment in fixed assets foundries mainly requires long term loans. Which can be provided by different banks, financial institution government agencies such as DIC and some foundries arise fixed capital from friends and relatives and some invest their own funds.

There are different sources available for a foundry which satisfies their fixed capital needs and help in creating ways or opportunities for their development. Table No. 4.3 shows the information about the sources available to raise the fixed capital during the study period.

TABLE NO. 4.3
SOURCES OF FIXED CAPITAL

| Sr. no. | Sources | No. of units | Percentage |
|---------|---------------------------|--------------|------------|
| 1 | Owned | 10 | 66.6 |
| 2 | Bank | 15 | 100 |
| 3 | Financial Institutions | 7 | 46.6 |
| 4 | Government Agencies | 3 | 20 |
| 5 | Friends and relatives | 5 | 33.3 |
| 6 | Other Business Assistance | 2 | 13.3 |

Multiple responses permitted

Table no. 4.3 clears that there are different sources available to foundries to raise fixed capital. Generally all foundries invested long term terms in fixed assets while establishing the foundry. So fixed capital required for establishing the foundries and taking the production of casting through plant and machinery required power etc. For constructing building installation of plants and machinery in foundry building furniture and fixtures foundries can use different sources to raise required capital which helps them for smooth conducting of industrial activities and for future growth and development.

As per the information given in the table No. 4.3 out of 15 foundries 10 foundries (66.6%) Satisfies their need of fixed capital through their own capital or funds. All of 15 (100%) foundries raise fixed capital through banks 7(46.6%) foundries take assistance from financial institutions 5 (33.3%) foundries take assistance of Government agencies 2 (13.3%) foundries use the assistance of friends and relatives and 3(33.3%) foundries take assistance of other business.

So it clears that there are number of ways available for foundries to satisfy the long term capital need which helps them for future development.

4.4 ROLE OF DIC-

DIC establish purposive linkages with the official and voluntary organization engaged in the promotion of small tiny and cottage industries. The development of small scale industries has received special attention of the government on the ground that it provides sizable employment opportunities all over the country. They are labor-intensive and require comparatively little capital and assistance in the removal of poverty by an equitable distribution of incomes.

2. Collective inspiration scheme: for 12 year

Under this scheme DIC gives 35% subsidy of fixed capital.

3. National Equity fund scheme

Under this scheme if project is of Rs. 50 Lacks then owner invest his 10% capitals 25% subsidy provide by DIC and remaining capital raised through financial institutions (65%)

4. Exemption from Sales Tax

This is the new scheme introduced by DIC that there is exemption from sales tax for gents proprietor it is 25% and for ladies proprietor it is 30%.

5. 5% subsidy on capital equipment for technology up gradation subject to maximum Rs. 25 Lacks.

6. 50% subsidy on expenses incurred for quality certification limited to Rs. 1 Lacks.

7. 50% subsidy on expenses incurred for patent registration limited for Rs. 5 Lacks.

4.5 FINANCIAL INCENTIVES BY CENTRAL AND STATE GOVERNMENT-

SSI plays an important role for the economic development of the country it provides number of employment opportunities. After the independence government realizes the importance of SSI due to greater employment generator, required less pay attention of development of SSI.

For the development of SSI industry of central and state government provides different financial incentives which creates better opportunities for the development of foundries.

Financial incentives provided by central and state government are

1. Differential rate of interest scheme.
2. Composite loan scheme.
3. Margin money scheme.
4. Special capital scheme.
5. Seed Capital scheme
6. Equity fund scheme
7. Soft loan scheme for modernization.
8. Credit guarantee scheme
9. Interest free loans.
10. Subsidy.

These are the some schemes which provide financial assistance to foundry industries.

4.6 ROLE OF BANKS -

There are number of commercial and co-operative banks enters into financing to SSI at state level, state financial corporation provides funds to SSIs and at district level commercial and co-operative banks provide finance to SSIs. The financial institutes such as IDBI, SIDBI, etc. also provide funds to SSIs.

Commercial and co-operative banks have increasingly involved themselves in providing finance to SSI under the entrepreneur scheme, they provide 100 percent finance to those SSI who have occupied sheds in an industrial estate. They have worked in close co-ordination with SFCS They have also provide term loans.

In Palus area the main financers of foundry industries is Palus co-operative Bank Ltd. Palus and state bank of India but in the survey it was found that almost all the foundries are depend upon Palus Co-operative Bank Ltd. Palus.

The purpose of Palus bank to advance for foundry industry covers both the cost of the initial assets viz, building plant and machinery as will usually be provided as medium term and long term advances. Sometimes bank provides composite short-term loans both for initial assets as well as for working capital depending upon the needs of the foundry and its repaying capacity.

The advances are provided against the security of the assets acquired out of finance. Thus the security of term and long term loans will be capital assets and equipment of the unit and the security for short-term loan or working capital finance will be the current assets, viz, inventory, etc.

4.7 DEMAND FOR FOUNDRY PRODUCT-

Foundry product is also called as casting. There are different types of castings require for all types of large scale industries. There are different types of castings produced by foundries in Palus area. Such as cast Iron Casting, steel casting, Aluminum casting, copper base casting, gravity die casting, gun metal and casting etc. All these castings require for pump industry, automobile industries etc.

Table no. 4.4 clears the demand for foundry product.

TABLE NO. 4.4
DEMAND FOR FOUNDRY PRODUCT

| Sr no. | Nature of Demand | No. of units | Percentage |
|--------|------------------------|--------------|------------|
| 1 | No demand | - | - |
| 2 | Moderate | - | - |
| 3 | High | 1 | 6.6 |
| 4 | Very high (increasing) | 14 | 93.4 |
| | Total | 15 | 100 |

Researcher collected this information through questionnaire. Table 4.4 clears that out of 15 foundries 14(93.4%) give response that demand for casting is very high, 1 foundry (6.6%) says that demand for casting is high. There is no any founder says that there is no demand or moderate demand for foundry product (casting)

So it clears that as there are high demands available for casting it creates opportunities or ways for development to foundries. Now it is in the hands of foundries to make such efforts to satisfy the increasable demand of casting.

4.7.1 FUTURE OF FOUNDRIES-

As it clears from the previous point that there is very high demand for casting which is ever increasing. So researcher takes the views of foundries about future of foundries. Table no. 4.5 gives information about it.

**TABLE NO. 4.5
FUTURE OF FOUNDRIES**

| Sr. no. | Nature of Future | No. of unites | Percentage |
|---------|------------------|---------------|------------|
| 1 | No future | - | - |
| 2 | Doubtful | - | - |
| 3 | Moderate | - | - |
| 4 | Bright | 7 | 46.6 |
| 5 | Very bright | 8 | 53.4 |
| | Total | 15 | 100 |

So about table clears that no founder give response to the option that there is no future doubtful future or moderate future for foundries but out of 15 foundries 7 (46.6%) give response that there is bright future for foundries and 8 (53.4%) foundries give response that there is very bright future for foundries.

4.7.2 REASONS-

As the survey conducted by researcher and information collected through interviews with owners and managers of foundries they give more responses to the options that there is high and very high bright future available for foundries.

It clears that there are number of opportunities available for foundries for their development.

These are the opportunities related to product and marketing but these aspects (product and marketing depend upon finance. Because if the adequate finance is not available foundries can not satisfy the increasing demand of casting and if it can not satisfy increasing demand the future of foundry naturally will be in doubt.

The responses given by owner and manager of foundries about the reason for high demand of casting and bright future for foundries are

1. Foundries industry is the basic industry which produces casting.
2. Casting is a intermediate goods which are used for producing finished products
3. Casting requires for producing pump sets, require for water schemes engines, automobile parts etc.
4. The base of large industries such as pump industries, engineering industries, automobile industries, agricultural industries, aircraft industries etc.
5. In some of the foreign countries, government of that country retracted production of casting due to pollution so the required casting for that country supplied from India through big industries like Kirloskar Brothers Ltd., Ebara pumps etc.