

CHAPTER V

THE FINANCIAL WEAKNESSES OF FOUNDRY INDUSTRIES

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CHAPTER V

THE FINANCIAL WEAKNESSES OF FOUNDRY INDUSTRIES

5.1 INTRODUCTION :-

In previous chapters researcher tries to discover the financial Strength and opportunities available for foundries. In present chapter researcher tries to highlight the weaknesses generally faced by the foundries.

Generally weaknesses are problems faced by the industries. These problems are of two types namely – Internal problems and External problems.

Internal problems are raised in the internal environment of the industry. These internal problems are the weaknesses faced by the foundries. There are many problems which makes the industries sick. A sick industry is not healthy.

According to one school of thought, a sick industry is one which works below 20% of its installed capacity.

5.2 FINANCIAL WEAKNESSES :-

Weaknesses are internal problems faced by the foundries. Weaknesses raises due to many reasons. Financial weakness means the financial internal problems raised in the internal environment of the foundry. There are number of financial weaknesses faced by the foundries.

Such as improper mgt of funds, ineffective works, capital management, incorrect estimate of working capital requirement, maintenance of balance sheets with default figures, low capacity

utilization etc. financial weaknesses raised due to no proper use of accounting techniques.

There are some criteria are given to define financial weaknesses in foundries such as:-

- 1) Financial weak foundry is one which has incurred cash losses in the immediately preceding two years.
- 2) Whose working capital advance account with the bank clean irregularity has persisted over a longer period of time.
- 3) Under utilization of capacity.

5.3 CASH LOSSES:-

As per the first statement in previous point, that the financially weak foundry is one which has incurred cash losses immediately preceding two years. Table no. 5.1 shows the net profits and net losses of foundries during the 1997-2007.

TABLE NO. 5.1

NET PROFITS AND NET LOSSES

Sr.No.	Year	No. of units exist	Net profit No.of Units	Net Loss No. of units
1	1997-1998	6	6	-
2	1998-1999	6	5	1
3	1999-2000	6	5	1
4	2000-2001	8	7	1
5	2001-2002	9	7	2
6	2002-2003	10	7	3
7	2003-2004	10	7	3
8	2004-2005	10	8	2
9	2005-2006	13	10	3
10	2006-2007	15	12	3

Above table clears that there are more foundries which makes net profit than net loss. It clear from above table no. 5.1 that in the year 1997-98 6 foundries were established and all six foundries gain profit but in the year 1998-99 and 1999-2000 there were five foundries were in profit and 1 foundry faces losses in these two years. It is found in the survey that same foundry faces the loss during these two year and also for subsequent years. In the year 2000-2001 total number of foundries gain net profit again 1 same foundry was in loss. In year 2001-2002, 9 foundries existed, out of them 7 foundries gain profit and along with the previous. Foundry one foundry faces the loss. In 2002-2003, 2003-2004 and 2004-2005 total 10 foundries faces losses in these years respectively. In the year 2005-2006 and 2006-2007 total 13 and 15 foundries respectively established. Out of which 3 and 3 foundries faces loss.

While conducting the survey researcher found that since 1998-99 number of foundries who faces the loss increased or decreased but in all of them one foundry constantly faces loss during successive years. But other foundries faces losses for not more than one year.

The reasons for facing the losses are external that are rise in the prices of raw materials, rise in the competition, rise in bank interest, strike etc.

But the reason for facing the losses for that one foundry is improper management of funds.

So it is concluded from above information that out of 15 foundries only one foundry (6.66%) came under the first criteria (cash losses for successive 2 years) which clears that this foundry in financially weak condition.

5.3 IRREGULAR CLEARANCE OF WORKING CAPITAL ADVANCE

The second criteria which define the financially weak Foundry, is clearance of working capital advance to bank is irregular for long period of time. By using this criteria in this point researcher tries to discover the foundries that are in financially weak condition.

The table no. 5.2 gives the information about the irregular clearance of working capital advance and average percentage of non-clearance.

TABLE NO. 5.2
IRREGULAR CLEARANCE OF WORKING CAPITAL

Sr. No.	Year	No. of units Exist	No. of units not cleared	Average % of non-clearance
1	1997-1998	6	-	-
2	1998-1999	6	1	30%
3	1999-2000	6	1	30%
4	2000-2001	8	1	50%
5	2001-2002	9	2	40%
6	2002-2003	10	2	50%
7	2003-2004	10	2	40%
8	2004-2005	10	3	60%
9	2005-2006	13	4	50%
10	2006-2007	15	3	45%

As per above table in the year 1997-1998 total 6 (40%) foundries were exist and all these foundries regularly cleared their working capital

loan taken from bank. But in the year 1998-1999, 1999-2000 out of 6 foundries one foundry not cleared its 30% working capital loan. In the year 2000-2001 total 8 foundries (53.3%) exist out of which 1 foundry not cleared its 50% working capital loan. In the year 2001-2002 total 9 foundries (60%) exist out of them 2 foundries not cleared their working capital advances and the average percentage of non-clearance was 40% . in the year 2002-2003, 2003-2004 and 2004-2005 total 10 foundries (66.6%) exist out of them for 2002-2003 and 2003-2004, 2 foundries not cleared the working capital loan and average percentage of non-clearance was 50% and 40% respectively. In the year 2004-2005 3 foundries not cleared working capital loan and average percentage of non clearance was 60%. In the year 2005-2006 total 13 foundries (86.6%) foundries exist and out of them 4 foundries not cleared average 50% working capital loan and in the year 2006-2007 15 (100%) foundries exist out of which 4 foundries not cleared average 45% working capital loan taken from bank.

Again while conducting the survey researcher found that there were 14 foundries (93.4%) cleared their working capital loan regularly and who have not cleared for some years, their percentage of non-clearance was negligible which range between 15-25%.

But out of these 15 foundries again that one foundry (6.6%) irregular in clearing the working capital loan for longer period and its percentage of non clearance was mostly above 70%.

5.4 INSTALLED CAPACITY VS. CAPACITY UTILIZATION

According to one school of thought, “a sick unit is one which works below 20% of its installed capacity.”

So this is the third criteria taken by the researcher to discover the foundry which is sick or weak. Table no. 5.3 gives information about installed capacity of 15 foundries.

TABLE NO. 5.3
INSTALLED CAPACITY

Sr. No.	Range of Installed capacity (in tons)	No. of units	percentage
1	Below 100	-	-
2	100 to 200	1	6.6
3	200 to 300	2	13.4
4	300 to 400	-	-
5	400 to 500	2	13.4
6	500 to 600	1	6.6
7	600 to 700	2	13.4
8	700 to 800	-	-
9	800 to 900	1	6.6
10	900 to 1000	2	13.4
11	Above 1000	4	26.6
	Total	15	100%

It is clear from above table that, there is no foundry installed capacity below 100 tons. There are 1 (6.6%) and 2 (13.4%) foundries installed the capacity between 100 to 200 and 200 to 300 tons respectively. There is no foundry installed capacity between 300 to 400

tons. There are two foundries installed capacity between 400 to 500 tones, one foundry between 500 to 600 tones and two foundries between 600 to 700 tons. There is no foundry installed capacity between 700 to 800 tons. There is one foundry installed capacity between 800 to 900 tons, two foundries between 900 to 1000 tones and 4 foundries installed capacity above 1000 tons.

So after giving information about installed capacity of 15 foundries here researcher tries to show the range of percentage of capacity utilization by foundries. Table no. 5.4 gives the information about range of percentage of capacity utilization by 15 foundries during 1997-2007.

TABLE NO. 5.4
RANGE OF PERCENTAGE OF CAPACITY UTILIZATION

Sr.No	Range of percentage	1997- 98	1998- 99	1999- 00	2000- 01	2001- 02	2002- 03	2003 -04	2004-05	2005-06	2006- 07
1	0-20%	-	-	-	1	1	1	1	1	1	1
2	20-40%	-	-	-	1	-	-	-	-	-	-
3	41-60%	-	-	1	-	1	1	-	-	-	1
4	61-80%	3	2	1	2	2	4	5	5	6	6
5	80-100%	3	4	4	5	5	4	4	4	0	7

In the year 1997-1998 total 6 foundries exist out of them no foundries uses capacity less than 60% 3 foundries uses capacity between 60 to 80 % and another 3 foundries between 80 to 100% capacity. In the year 1998-1999 no foundries uses capacity less than 50 % 2 foundries uses capacity between 60 to 80 % and 4 foundries uses capacity between 80 to 100% in the year 1999-2000 6 foundries exist out of the 1 foundry uses capacity between 40 to 60 % one foundry between 80 to 100% In the year 2000-2001 total 8 foundries exist out of which 1 foundry used capacity between 40 to 60 % two foundries used capacity between 60 to 80 % and remaining 5 foundries used capacity between 80 to 100 % . in the year 2001-2002 total 9 foundries exist out of which 1 foundry used capacity less than 20% . 1 foundry used capacity between 40 to 60% . 2 foundries between 60 to 80 % and 5 foundries between 80% to 100% .

In the year 2002-2003, 2003-2004 and 2004-2005 total 10 foundries exist. Out of which 1 foundry used capacity less 20% of its installed capacity in these three years. One foundry used capacity between 40 to 60% in 2002-2003 and remaining 4 and 4 foundries used capacity between 60 to 80 and 80 to 100% respectively. In the same year in the 2003-2004 and 2004-2005, 5 foundries used capacity between 60 to 80% and remaining foundries used capacity between 80 to 100%.

In the year total 13 foundries exist out of them 1 foundry used less than 20% capacity. And 1 foundry used capacity between 40 to 60% , 6 foundries used capacity between 60 to 80% and remaining 5 foundries used capacity between 80 to 100% . in the year 2006-2007 total 15 foundries exist out of them 1 foundry used less than 20% capacity of its installed capacity. 2 foundries used capacity between 40 to 60%. 6 foundries used capacity between 60 to 80% and remaining 6 foundries

used capacity between 80 to 100% of their installed capacity. But it is seen that there is 1 foundry uses the capacity between 0-20% since 2001-2002.

5.5.1 REASONS FOR UNDER UTILIZATION OF CAPACITY :-

After taking the information about installed capacity of foundries and percentage of their utilization, researchers ask the reasons for under utilization of capacity by giving multiple choices. And the responses given by the founders are shown in the table no. 5.5

**TABLE NO. 5.5
REASONS FOR UNDER UTILIZATION OF CAPACITY**

Sr. No.	Reasons	No. of units	Percentage
1	Lack of demand	2	13.4
2	Lack of finance	3	20.0
3	Shortage of Raw Materials	14	93.4
4	Shortage of Skilled Labour	10	66.6
5	Shortage of Power	1	6.6
6	Competition	13	86.6

Multiple Responses permitted.

Researcher provides the multiple responses to know the reasons for under utilization of capacity. Out of 15 foundries only two (13.4%) industries give response to lack of demand 3 industries (20%) says lack of finance. 14 industries (93.4%) responded for shortage of raw materials . 10 industries (66.6%) responded for shortage of skilled labour. 1 foundry (6.6%) respond for shortage of power,. 13 foundries (86.6%) respond for competition.

5.6 OTHER WEAKNESSES :-

Beside the above mentioned criteria for financially weak position of foundries researcher also found another different reasons for weakness araised in foundries.

5.6.1 IMPROPER MANAGEMENT OF FUNDS :-

Management of funds means funds which are required for conducting industrial activities should be managed in proper way or by using proper accounting techniques. Proper accounting techniques means. Techniques of working capital estimation, cash flow, and funds flow statements ratio analysis, budgeting etc. which clears the following of funds in business position of business etc.

It is found in research that almost all the foundries not using these accounting techniques for managing the funds.

If they use these techniques they can use their funds in proper way.

5.6.2 UNAWARE OF SCHEMES OF DIC :-

It is already seen that there are number of schemes or financial incentives given by DIC. But there 1 or 2 foundries receive the financial incentive of DIC as a subsidy. It means most of all foundries are unaware of schemes of DIC.

5.6.3 UNSKILLED LABOUR :-

It is found in survey that in all the foundries more than 70 % labours are unskilled to whom they provide on the job training.

If they hired skilled labors then the time will saved which is wasted in giving training to labours