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An Experimental Entrepreneur

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Abstract: *An entrepreneur, his development & various facets of entrepreneurship have been a topic of interest for researchers who have tried to explore various critical points in journey of entrepreneurship.*

This real life case is about an experimental entrepreneur who believed in experiments & did not know that during the entrepreneurship, a situation may come when the entrepreneur may find trapped in vicious circle. One tries to apply all the acquired skills, formulate different strategies & try desperately to come out of the situation but all its attempts end in fiasco. One finds itself in deeper water with every attempt it makes to break the jinx. Ultimately, the experimental entrepreneur finds himself in a hopeless situation with multiple pressures from all corners reaching to a point where he has to take a decision to avoid getting a tag of a "Failed entrepreneur".

This case can be taken while teaching any of the MBA Courses like Entrepreneurship, project management & marketing management. Few learning that are expected to come out of the case discussion are-environment scanning techniques, PESTEL Analysis, Project report preparation, Porter model of strategic management, different form of organizations and its formation etc.

Keywords: *Entrepreneurship, Vicious circle, Strategies*

This case has been prepared by the writer after prolonged discussion with the promoters of the company at Mumbai and it is only for the class room discussion. All names have been disguised to protect the identity as per the conditions laid down by the promoters.

It was June 2003 when Mr.AKS, from a middle income group family, a first generation entrepreneur and Managing Director of lubricant manufacturing company ABC Ltd, located at Wada, the nearest backward industrial area from Mumbai, felt tremendously stressed reading the financial indicators (losses) in the audited financial statements for the period ended March 2003 handed over to him by company auditors Mr. Ram Prasad.(Exhibit-1)

Key Promoters' background

Hailing from a lower income group family, Father of Mr.AKS a service man realised the importance of education and decided to give best possible education to all of his five children. Overcoming many hurdles & crisis on his way, he ensured that all his five children get the best possible education.

AKS, the second son did his post graduation in economics & business management & got corporate experience of FMCG marketing, Concept selling & Resource mobilization in a finance conglomerate. Working in cities like Calcutta, Bhubaneswar in a short span of five years, a moment came in his life where he had to take a decision that could prove to be a turning point in his life.

Mr. AKS was well settled in Kanpur employed as class I officer in a Government undertaking where he had full opportunities to earn money, fame & status. An opportunity came to him where an offer was made to him by an industrialist from Mumbai in which he himself had to write his employment terms and conditions for leaving the Government job & shift to Mumbai to work on a challenging assignment.

Assignment:- XYZ Group of companies, Mumbai with four running enterprises under its umbrella was doing well for last two decades under able leadership of an old but dynamic man whose only son was studying MBA abroad. The assignment was to formulate & finalize a diversification plan to be executed in a span of two years. The Pre conditions put in by the group owner were:-

1) It should be a manufacturing unit.
2) Mr. AKS should be a part of the plan & be one of the stakeholders.

The offer made by the group owner left AKS in dilemma; Should he leave the secured government job and experiment with entrepreneurship which was his cherished desire from the childhood?

Decision point-1 Transition from Service class to entrepreneurship

AKS left the Government job & shifted to Mumbai on 5th December 1989.

AKS had many practical questions going in his mind needing answers:-

1) How to proceed in chalking out a Diversification plan?
2) Preparation of project report once the plan is finalised
3) Deciding about location of the new unit
4) Deciding about type & structure of new unit
5) Deciding about his own stake holding
6) Executing the project to make it ready for commercial production in two years.
7) Fear of failure as failure clause involved huge cost.
8) Many more questions.

AKS recalled a narration told by one of his professor that "Future plans would emanate from past history of the company".

AKS decides to sit with Owner & talk to him to know the 20 years history of XYZ group of companies to get a clue to proceed towards chalking out a diversification plan.

"Group owners briefing"

XYZ group of companies has four establishments under its umbrella.

1) X Barrel company:- Group owner says "I started my career with Jalan textile as a supervisor. I was ambitious, energetic& ready to take risk in my life.

Socialising with high profile people was my hobby so I joined Lions club of South Mumbai 20 years back. I came across a high profile official of one of the Petroleum companies. During an informal discussion in one of the social meeting, I came to know that petroleum products including petrol were being packed in 20 litres Gallons having multiple joints generally leading to leakages thus causing losses to the individuals/companies. It gave me a clue to experiment & explore the possibility of making "Stainless Steel "joint free 20 litres gallon" for mass production. Two sample pieces were made and submitted to Hindustan petroleum for approval. Samples were approved on all parameters & here was a birth of first generation entrepreneur.

X Barrel Company, a proprietary firm came into existence 20 years back with a status of approved vendor getting huge orders with extraordinary profit with little manipulation. Few years passed. Company made huge profits leading to high reserves and surpluses. I was thinking to diversify as entries of few more vendors were reducing my margins.

Petroleum companies at that time sold lubricants packed in 250 mls-5 ltrs plastic containers through their retail network.

They did not manufacture plastic containers but procure it through approved vendors in Tenders by invitation by giving monthly call offs. I also came to know that limited number of Vendors have made a price cartel to earn high profit margin.

I got my diversification plan.

2) X- Plastic Industry, a sister concern was formed to supply Blow moulded plastic containers up to 5 litres capacity. Approved vendor status from all the petroleum companies like BPCL, HPCL, IOC, and IBP was obtained & I became the leader of the cartel in a short span of two years. Few years passed with extra ordinary profits leading to huge surpluses giving me a need for further diversification.

It was again found in an informal chat with the high profile official that Petroleum companies manufacture blended petroleum products in bulk to be packed in tankers of 12kls/10kls or more or packed in 205 ltr/210 lt MS Barrels. They get it repacked in small containers through approved re-packers at the re-packer's premises.

Lubricants were collected by re-packers in tankers/210 barrels. Plastic containers were delivered at re-packers premises by approved vendors (Plastic can manufacturers) as per the call offs given by the petroleum companies. Re-packers repacked the bulk products in small containers and delivered back to the installations of petroleum companies. I got my diversification plan.

3) X-Packers & allied packaging:- Another proprietary firm was formed. Approval as re-packers was obtained by all the petroleum companies & huge profits were obtained through high packing charges for many years. Few years passed with huge profits again giving me a need for a diversification plan.

4) X-Cartons & allied works:- Petroleum companies procured cartons of various sizes for packing the repacked products again through approved vendors. It was again found during an informal chat. It gave me my diversification plan three years back.

As property rates of Mumbai industrial galas were at its peak requiring huge investment & my industrial galas at prime locations of Lower Parel, Kurla, Dadar, Prabhadevi were fully utilized, I decided to buy an industrial plot at the nearest Government industrial area. An industrial plot in chemical zone of TTC Thane was purchased & a three floor 40000 sq. ft constructed area suitable for carton manufacturing was made. Supplies to all petroleum companies have started last year giving us good margins.

All four firms closely held and having separate identities are running well with a combined turnover of INR 120 Crores in the year 1988-89.

I am an orthodox, self made first generation entrepreneur. I have grown old when I found you to give me a diversification plan to be ready within two years so that my son returns and I start working on my succession plan.

AKS concluded that Owner resorted to an orthodox style of Environment scanning by chatting informally to high profile officials. He resorted to Analysing the Business environment more systematically.(Exhibit-2)

Decision point-2 Identification of project:-

AKS used the strength of XYZ and went for environmental scanning techniques, met top people of petroleum companies and found that Petroleum companies are manufacturing a) lubricants viz Automotive & Industrial & b) Speciality lubricants falling in the category of Chemicals. 70% of their revenue used to come from sale of lubricants where as 30% revenue was from sale of speciality lubricants. One of the products zeroed down by AKS was "Brake fluid". No petroleum company was manufacturing Brake fluid & they had limited suppliers in SSI Sector. Swastik lubricants were a major supplier of this product making huge profit in tender by invitation.

"Product detail"

Brake fluid was a type of Hydraulic fluid used in hydraulic brakes & clutches in automobiles. It was & still used to transfer force into pressure and to amplify braking force. It does not fall into the category of lubricants rather it falls in the category of chemicals.

Literature review:- There is not much scope for literature review as the case written is entirely based on the "Interviews session of a living entrepreneur at Mumbai" and is a compilation of facts . However two aspects of literature given below became the source of the chosen topic and an attempt was made to reach the living entrprenure.

A critical finding in world bank group entrepreneurship survey (2008) became the starting point. Economic development necessarily witnesses an important role of entrepreneurship and innovation. New firm creation through entreprenureship and innovation in existing SME'S Play an important role (OECD,2010).

Strong evidence has been found on entrepreneurship and their links to income/job creation. Strong evidence has also been found on existence of many models for supporting entrepreneurial development.

AKS on literature review found that brake fluids fall in three categories on international parameters. U.S Department of transport (DOT) categorised brake fluid in three product categories:-

1) Glycol ether based (DOT-2, DOT-3 &DOT-4 specifications)

2) Mineral oil based

3) LHM (Liquid hydraulic Mineral) DOT-5 Specification

US Department of Transport sold DOT-3 & DOT-4 where as ISI sold DOT-2/3 Specification brake fluid. Society of Automobile Engineer (SAE) Specifications characterized classification of Brake fluid as given in (Exhibit-3.)

Working on Porter's model (Exhibit 2), AKS was genuinely influenced with the prospect of Brake fluid in petroleum sector coupled with low barrier to entry but was confused with the fact that DOT-2/3 was being sold in India whereas technological changes were apparent. R&D & international market was clearly signalling emergence of DOT-4, DOT-5 specifications. Confusion was further complicated when DOT-3 sample submitted by AKS for vendor registration was approved by Bharat Petroleum Corporation ltd. He was invited to participate in limited tender for supply of 6000 KLS of DOT-3 in 1992-93. AKS was confident to get the order worth approx Rs. 60 crores with a profit margin of roughly 15%. Decision of taking "Manufacturing of brake fluid DOT-3" as a diversification project was difficult for AKS because of following reasons:-

1) Existing Order (Call off) given by BPCL for the supply of 5000 kls of DOT-3 with a provision of 25% additional call off in the year 1992-93 on the one hand & changing technological environment towards DOT- 4 & DOT-5 specifications.

2) Survival of project with one product

3) Dependence of entire XYZ group on government petroleum companies.

4) Setting up the plant to be ready for pre-supply inspection of BPCL technical team by February 1992.

Lubricant market during 1990-92

Prior to 1992, the Indian lube industry was dominated by four major public sector companies including, Indian Oil Corporation (IOC), Hindustan Petroleum Corporation Limited (HPCL), Bharat Petroleum Corporation Limited (BPCL), and Indian British Petroleum (IBP). There were a few private sector companies too such as Castrol, Gulf, Tidewater, etc. About 90% of the Indian lube market was controlled by public sector undertakings (PSUs), while the remaining 10% was held by private sector players[1]. Out of total share of public sector, around 60% was dominated by spurious products especially in rural market. Industry was expecting reforms, reduction in import duties, elimination of Administered pricing regime, and free pricing in lubricants. Expectation of Deregulation was likely to encourage all the major multinationals (MNCs) such as Shell, Mobil,

Exxon, Caltex, Esso, Elf, Pennzoil, Gulf Oil, BP among others to venture their operations in the country with their foreign brand.

[1]Castrol Indian Limited", http://www.ppfas.com/pdf-docs/research/research-reports/1990/castrol-india-ppfas.pdf, December 4th 1990

2 singh,„ramendra, paliwal,pramod, et .al 2008,"Distribution challenges in Indian lubricant industry".

Growth Opportunities:-

AKS was finding tremendous growth prospects in auto lube industry. The industry was facing challenging times prior to 1990 in terms of slow growths in consumer demand, low profitability, and advances in auto technology. Decline in automotive sales and rising crude prices caused severe base oil supply imbalances in the country. Due to shortage of raw materials, many players were forced to bring in multiple price hikes.

However, AKS found many factors such as growing disposable income of individuals and double income households, changing demographics, changing lifestyle, improvement in road infrastructures, increasing usage of automotive transportation, rural demand, and support from the government that were indicating Indian automotive lubricants market to be one of the fastest growing market.

It was expected that the global lubricant demand would grow about 2.3% per annum to reach 41.7 million metric tonnes by 2010, while India is likely to see a growth of over 3% during the same period[2]. The demand of automotive lubricants in India was also expected to increase to 1.92 MMT by 2014-15.

AKS further found that Introduction of new cooling system technologies, growth of heavy commercial vehicles and increasing awareness among the customers are likely to boost the demand of high quality lubricants & coolants oil. The brake oil segment was likely to grow due to introduction of new brake systems, consumption by commercial passenger vehicles, and changing mindset of consumers. Similarly, advanced gear system technologies, and automatic transmission system have boosted the demand of gear oil. Overall market AKS concluded that lubricant market was likely to grow with huge growth opportunities in export market and yet untapped rural markets.

Future Challenges

It was expected that Indian market would become highly competitive, given that major international players identified India as a focus market, and several new companies were setting up their operations

In the country, Pricing of petroleum products were linked to global prices although few products were protected through cross-subsidization, which would get dismantled in the coming years. PSUs were placed in a comparatively competitive position since they had integrated operations (own their refineries) which helped them to depend less on buying base oil from other companies, and could also resort to cross subsidization across different petroleum products, if the need arose. Moreover, they had bigger balance sheets, larger resources and the most needed government support. All these posed big challenges for private players. Then, low product awareness and involvement, especially in rural market also pose a big challenge for the Indian lubricant companies.

After analyzing the scenario, AKS concluded that It is possible to survive and grow in this market if small players maintain good relationships with their stakeholders, especially the channel partners, and customers. AKS was zeroing down finally to its diversification plan thinking in terms of starting with more than one-product and reducing over dependence on one big giant with a backup plan for long term sustainability & profitability.

It was 5th March 1990, when AKS decided to diversify into a SSI manufacturing plant to manufacture Brake fluid DOT-3 and automotive lubricants. Immediate issue confronting AKS was to decide the form of organization & location of units.

Decision point 3 deciding about the legal identity & project planning of the new venture:-

AKS had options to start a proprietary, partnership, private ltd, public limited. Location wise, AKS had options to set up the new project in one of the existing location at Parel, Kalachowki, TTC rabale (chemical zone) having their advantages/disadvantages or to go for a different location. As one of the condition put in was that AKS should be a stake holder, AKS after due

[2] “Automotive Lubricants Markets in India”, http://www.researchandmarkets.com/ reports/1990-92

deliberation decided to form a private limited company at a new location i.e Wada (nearest backward area eligible for Capital subsidy around 85 Kms from Mumbai) with the core business of Manufacturing Brake fluid & automotive lubricants.

Once a diversification plan was chalked out, other developments were at a faster pace. Glimpse of activities carried out on war footing was:-

1) Name approval of ABC Pvt.ltd,

2) Submission of Article and Memorandum of association to ROC for Incorporation

3) Site selection & acquisition at Vill. Khupri, Tal.Wada

4) Application for NOC from Gram panchayat, Pollution control board (Air & water)

5) Building plan approval (Architect as well as Structural)

6) Award of contract for timely construction.

7) Getting SSI Certificate & Lube license from Directorate of Industries

8) Applying MSEB for HT power connection with provision of temporary LT connection.

AKS was wondering about Project report & project cost with the view to mobilize fund from financial institutions. It was his sole aim to keep his financial stake at the minimum.

ABC Private Ltd Company with two promoters was incorporated. AKS had 26% of equity where as Son of Group owner was given 25% equity holding with a provision of

Reconstruction & buy back of shares for smooth transfer of power. It was decided to submit project to MSFC for Long term loan, Commercial bank for Working capital & DCKL for capital subsidy. Detail project cost was worked out and project report was prepared and submitted to MSFC for technical & financial feasibility. Project cost, means of financing, working capital assessment, projected balance sheets are given in (Exhibit-4,5,6 & 7).

AKS in his project envisaged that packing containers, cartons etc will be purchased from third party to sell lubricants in own brand in rural market of few states whereas Brake fluid will be supplied to petroleum companies through limited tender.

On its technical appraisal, MSFC put few conditions towards technical feasibility:-

1) To make the project an integrated plant with facility to manufacture plastic containers

(250 ml -5 ltr capacity) too with other materials from third party.

2) Increased provision of vertical tanks for storage of Base oils & finished lubricants.

3) Separate provisions of Brake fluid storage and lubricants with repacking lines.

On its financial appraisal, MSFC recommended bridge loan against capital subsidy as waiting time of disbursement from DCKL was very high. Working capital assessment was also downsized taking pretext of norms.

On September 1990, A long term loan of Rs.2,00,00,000 & Working capital of Rs.50,000,00 was sanctioned by MSFC & Bank which included bridge loan against subsidy.

Growth Stage Till 1998:-

Working on schedule, AKS completed all task in order to go for commercial production on 10th April 1992. AKS started with Manufacturing of brake fluid and supplying it to BPCL in first phase & wanted to do more home work before launching its own brand of automotive lubricants in small pack in phase ii. AKS decided to launch its own brand of lubricants with well thought of marketing strategy in the state of Bihar & Rajasthan on 1st September 2012.

First Bad Signal in 1999

Since then AKS was flying in sky with growing figures year by year till 1998 when in spite of increasing sales, company went to red because of many reasons like higher debt servicing figures, increasing cost of production, working capital pressure & increasing debtors figure.

Many steps were taken by AKS like bringing in high cost deposits from Distributors, factoring of receivables, high cash discount structure further reducing the profitatability & increasing losses.

Balance-sheet for the period ending 31st March 2003 was showing alarming symptoms with a clear signal that If strategic decisions were not taken, ABC Ltd will lead to industrial sickness in 2003-04. As AKS was reluctant to give balance sheet, author has given the trend of some critical components by going through the balance sheet (Exhibit 1)

Alternatives for Evaluation:-

Mr.AKS discussed the grave situation with Mr. Ram Prasad & group of consultants. Few suggested infusion of more equity and an attempt to liquidate the debt. They even suggested another option to go for Public issue as ABC Ltd had orders worth 100 Corers from petroleum companies and State Distributors.

Mr.AKS was pondering over the signals of the financial indicators for 2002-03 when he received a call from world class lubricant manufacturer MNO Ltd which wanted to fix a meeting to discuss various offers ranging from "Making ABC Ltd a Dedicated plant", complete takeover or amalgamation of two companies with Mr.AKS in the board of directors. Passion of Mr.AKS was at stake which reflected from his face but he had to go for a strategic decision.

Decision Point 4: What should AKS Decide?

Pedagogical Objectives:-

This multidimensional teaching case has been prepared by the author solely for the purpose of class room discussion and to initiate discussion in Management development program. The objective is not to highlight either effective or ineffective handling of the case situation by the company or its promoters.. All names in the real life case or the case character & the case company have been disguised to protect identity.

The multi dimensional case can be taken for MBA Students in Entrepreneurship, strategic management, financial management & project management and in Young entrepreneurs MDP

This case can be helpful in providing theoretical concepts of a) Decision making using decision tree b) form of organization, its merits & demerits C) Formation of Company, d) setting up a new project, e) location planning, f) resource mobilization through banks & financial institutions, g) industrial sickness etc

The case can also be taken to demonstrate critical parameters of a sick unit.

Participants will learn the ability to identify various critical corners in setting a new venture and analyse critical parameters of industrial sickness & take decisions.

Teaching Plan

- **Total Discussion Time:** 90-120 minutes

The following teaching plan flow is suggested that provides the comprehensive structure to the case discussion in the class. However, the structure is not compulsory and the case discussion can be allowed to take its own course. This case qualifies the parameters of a case study that can be discussed in any discipline; it may be in entrepreneurship, strategic management, marketing, finance, operations management or project management . The suggested teaching plan helps instructors to discuss all the theoretical concepts and its practical implications through broad understanding and analysis of the case studies and issues.

Teaching Note-1:-

The instructor can start case discussion in the class through asking questions like –

- What is Decision making? Instructor can explain five types of decision making viz Intuitive, normative, behavioural, cognitive & decision tree.

Teaching Note-2:-

- Instructor can explain meaning of environmental scanning & various environmental scanning techniques. Porter's model done by the entrepreneur can be explained by the instructor.

Teaching Note-3:-

- Students can be explained the technical specifications of brake fluid, automotive lubricants, scenario and challenges of this sector.

Teaching Note-4:-

- Instructor can explain different types of organizations, its merits & demerits, application of theory in this case.

Teaching Note 5:-

- Instructor can explain formation of Company, preparation of project report, location planning, backward area subsidy, financial institutions & limits, technical & financial appraisal of projects etc

Teaching point-6:-

- Instructor can discuss "Working capital assessment for a new project", reading financial statements, bridge loan, factoring, parameters of industrial sickness etc.

The following important point is necessary to discuss during the case analysis:

The Conclusion Stage:

The facilitator requires turning the discussions towards the final issues of the case study, which is "what should AKS do now?"

The discussion should bring out the alternatives available to AKS, pros & cons of each alternative & to conclude with the most appropriate alternative in the prevailing circumstances.

Few Suggested Assignment Questions for Students

- *Explain the current business environment of Indian automotive lubricants industry. Explain it with PESTEL analysis.*
- *Make porter's analysis in current scenario of lubricants and brake fluid market*
- Make a project report of manufacturing unit with assessment of working capital requirement.
- *What controls if present may have prevented the company from getting into trouble?*

Acknowledgement

I am thankful to Mr. Ajay kumar Sharma & Mr.Baij nath Sharma, resident of Mumbai, Promoters of the company who gave me their appointments during 2007-2008 & shared their journey of entrepreneurship before their sudden & untimely demise.

"An experimental entrepreneur Part-A" would not have been possible without their support.

I am also thankful to Mr. Pawan Sharma, young & energetic son of Late Mr. Ajay Sharma, key person after the succession plan who has agreed to provide me the required base for writing second part of the case.

Exhibit-I Critical parameters of
Balance sheet as on 31st March 2003

LIABILITIES			ASSETS		
S.N	**PARTICULAR**	**AMOUNT**	**S.N**	**PARTICULAR**	**AMOUNT**
01	Current liability		01	Current assets	
a	Short term borrowings	Very very high	a	Stocks,	depleting
b	Unpaid statutory liabilities viz wages, elect bill, s.tax , excise duty & i.tax demand exceeding 10 months	Very high	b	Dead stock or non moving stock	Rising
c	Suppliers bills unpaid for more than 8 months	high	c	Overdue debts mostly irrecoverable	Rising

	paying interest on delayed payment				
d	Contingent liabilities viz law suits in courts	moderate	d	Cash & bank balance	Very low
02	Term liabilities		02	Fixed assets (First charge MSFC) (Second charge banks)	Non realizable
a	MSFC Term loan instalments and overdue interest unpaid for more than 10 months	Accruing with penal interest		Intangible assets	low
b	Equity	reducing			

AKS did not give the balance sheet for the reason that it may affect his plans. Hence trend direction is being given.

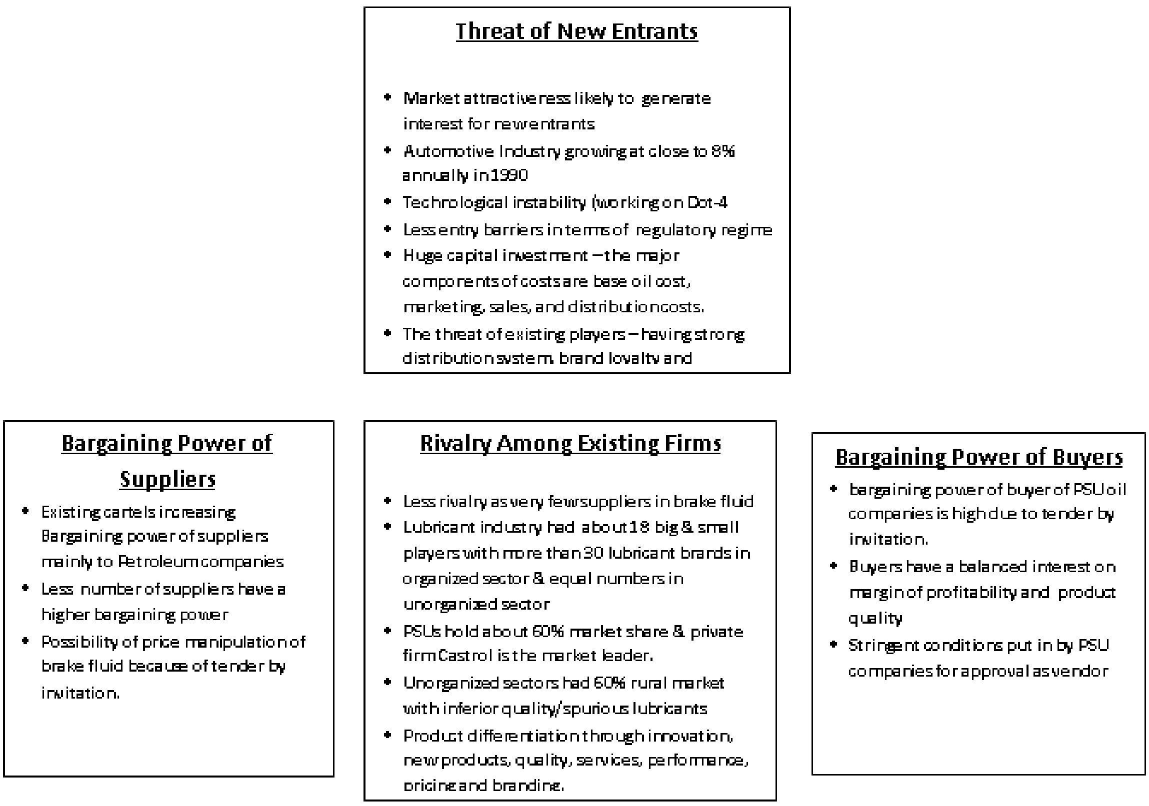
EXHIBIT-II

SAE Classification of Brake Fluid (Vital characteristics)

Type of Fluid	Dry boiling point	Wet boiling type	Viscosity limit	Constituent
DOT-2	190 Deg c	140 deg c	??	Caster oil
DOT-3	205 Deg c	140 deg c	1500 m2/s	Glycol ether
DOT-4	230 deg c	155 deg c	1800 m2/s	Glycol ether/Borate Easter
DOT-5	260 deg c	180 deg c	900 m2/s	Silicon
DOT-5.1	260 deg c	180 deg c	900 m2/s	Glycol ether/Borate Easter

Exhibit-III

Indian Automotive lubricants & brake fluid Industry – Application of Porter's Five Forces Model



Threat of Substitute Products

- No product substitute in 1989
- Possible threat of demand-side substitute such as synthetic motor oils in the near future
- Threat of supply side substitutability
- Possible technological and product innovation in lubricant as well as brake fluid sector.
- Technological approval of re-refining technology bringing in possibility of cheaper automotive lubricants

Compiled by the Author in discussion with Mr.AKS

EXHIBIT-IV : Project cost

TOTAL PROJECT COST:- (Rs in lakhs)

1) Land cost = 8.00

Add. Land acquisition and legal charges = 1.20

Add Land developmental charges = 1.30

Total Land cost:- = 10.50

2) Building cost = 20.00

3) Plant & machinery with installations = 70.00

4) Other fixed assets = 8.00

5) Technical know- how & consultancy fee = 6.00

6) Prelim & pre op expenses = 11.00

7) Contingencies = 12.00

Capital cost of the project = 137.50

8) Total working capital requirement = 96.18

Less: Borrowing available from banks = 78.15

9) Margin money for working capital = 21.50

TOTAL PROJECT COST =177.00

Exhibit-v

Means of Project financing (Rs. In lakhs)

Total project cost	Rs.177		
(Including margin money for WC)		Owner's capital	=60
		MSFC Loan (including bridge loan)	= 90
		Unsecured Loans from directors	= 27
TOTAL	Rs.225	TOTAL	177

Exhibit-VI

Assessment of Total working capital requirement (calculated on the figures of projections)

Particulars	Working capital requirement	Rs.in lacs
Raw Materials (brake fluid , base oils & additives, HDPE & LDPE Granules), Cartons	2.1 months requirement	32.60
Stores, spares & consumables	1.0 month requirement	0.53
Stock in process	2.68 weeks requirement of stocks in process	11.87
Finished goods	1.36 months of bills receivables & sundry debtors	25.56
Bills receivables & debtors	1.83 months of Bills receivables & sundry debtors	43.45
Administrative expenses	1.00 month's manufacturing & administrative expenses	5.99
	Total W.C requirement	120.00 A*

LESS:

B*Credit available on purchases & advance payments received=23.22
Net working capital requirement (A-B) = (120.00 - 23.22) =96.78 C*
Permissible bank limits:-
1) Raw material = 32.60
Less: credit available = 23.22

= 09.38

Less margin @ 25%= 2.35

7.03

Stock in process = 11.87
Less margin @40%= 4.74

= 7.13

Finished goods= 25.56
Less margin @30%=7.67

= 17.89

Receivables
Book debts= 13.45
margin@50% 6.73
Bills receivables= 30.00
Margin Nil

Total limits D* Rs. 78.15

Net working capital requirement = 96.78 Margin money= 21.50
Permissible bank limits = 78.15
Deficit= C*- D*= 18.63

Exhibit- VII

Projected balance sheet as on 31st March 1992 submitted to financial institutions

Sources of funds	Schedule	Rupees in lacs	Rupees in lacs
Shareholder's fund	A	60.00	
Loan Funds	B	168.15	
Unsecured loans	C	27.00	
TOTAL			255.15
Application of Funds			
Fixed Assets	D		
Gross block at cost		144.06	
Less: Depreciation		30.08	
Net block		113.92	
Capital work in progress		16.33	130.25
Current assets, loans & advances	E		
Inventories		95.08	
Sundry debtors		46.46	
Cash & bank balances		2.35	
Loans and advances		2.52	
Total		146.41	
Less: current liabilities & provisions	F	32.60	
Net current assets			113.81
Prelim expenses to be written off			4.29
Profit and loss account			6.80
TOTAL			255.15

Projected Profit and loss account for the year ended 31st March 1992

INCOME	SCHEDULE	Rupees in lacs
Sales		235.00
Other income if any	G	1.14
Total		236.14
Expenditure		
Materials consumed	H	148.00
Operating & other expenses	I	58.85
Interest		17.86
Depreciation		4.63
TOTAL		229.34

Profit for the year carried to balance sheet 6.80

Schedule A

Share holders funds:- Rs. In lacs

Share Capital (Authorised) 20,00,000 equity shares @10 each	200.00
Issued & subscribed (Paid up) 6,00,000 equity shares@10 each	60.00
Total	60.00

Schedule B

Loan funds:-

Term loan from MSFC Secured by mortgage of fixed assets & capital subsidy	90.00
Working capital finance from bank secured by hypothecation of stocks Inventory & debts	78.15
TOTAL	168.15

Schedule C

Unsecured Loans	Rs.in Lacs
Loan from Directors	17.00
Loan from others	10.00
Total	27.00

Schedule D

Fixed Assets Rs.in Lacs

Particular	Costas at 1/4/1992	Projected Additions	Cost at 31/3/92	Depreciation as at 31/3/92	Net block as at 31/3/1992
Land free hold	10.50	-	10.50	-	10.50
Building	20.00	14.56	34.56	5.87	28.69
Plant & machinery	70.00	15.00	85.00	21.51	63.49
Other fixed assets	8.00	6.00	14.00	2.70	11.30
Total	108.50	35.56	144.06	30.08	113.92
Add: capital work in progress					16.33
Total					130.25

Schedule E: Current Assets, loans and advances Rs in lacs

Inventories		
Stock in trade, at cost or net realisable value whichever is lower (Raw materials & components)		
Work-in-progress		
Finished goods		
Consumables stores at cost		
Total		95.08
Sundry debtors (unsecured and considered good)		46.46
Under six month	46.46	
More than six month	nil	
Cash & bank balance		2.35
Loans and advances (unsecured and considered good e.g Deposits with petroleum company)		2.52
Total		146.41

Schedule F: Current liabilities

Current liabilities	Rs.in lacs
Sundry creditors	18.92
Interest accrued but not due on loans	10.68
Other provisions	3.00
Total	32.60

Schedule G Other income

Other Income	Rs.in lacs
Miscellaneous income from job work of repacking	1.14

Schedule H: Materials consumed

Materials consumed	Rs. In lacs	Rs.in lacs
Opening stocks:-		
Raw material	25.00	
Work in progress	07.00	
Finished stocks	20.00	
Consumable stores	04.00	
Add: purchases during the year	215.00	
Total		271.00
Less: closing stocks		123.00
Raw materials	60.00	
Work in progress	18.00	
Finished goods stock	39.00	
Consumable stores	6.00	
Total		148.00

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