A financial conundrum

About the business

Ram Kumar is a Post Graduate from Leeds Metropolitan University; Leeds, U.K. incorporated a company 'Valcasts Limited' on 13th March 2013. He renamed it as 'Alloy Cast Ltd' in August 2015 for effective marketing and branding purposes. The company's head office is based out of based at Grimsby, North East Lincolnshire. The company was initially engaged in consulting and advisory services for iron castings, steel casting, die castings and industrial valves. Overwhelmed with resounding success in providing advisory services and subsequent demand from his clients to help in design of valves and castings, he decided to broaden his consulting services by including CAD and CAM from the financial year 2015-16. This greatly helped in delivering exceptional designs to his clients' satisfaction. During the financial year 2015-16, his father, Shri Krishnaswamy, also a successful entrepreneur from the southern India, funded him £53,000 to meet business expansion requirements. Mr Krishnaswamy runs a highly profitable Iron Foundry, the business size of which is expected to be about £5, 00,000. The financial results of Alloy Cast Ltd for the year ending 31st March 2016 are given in Exhibit I.

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Exhibit I

Income statement for the year ending 31st March 2016

Particulars		31-03-2016
Turnover/Sales (A)	£	51225
Expenses		
Salary	40600	
Exhibition and Marketing	3200	
Business & Legal Insurance policies	450	
Continuing Education and Professional development	1000	
Taxi Hire Charges	1100	
Office rent and utilities	4500	
Inventory Rent and Utilities		
Depreciation		
Tangible assets*	84.5	
Office Supplies and Appliances*	250	
Total Expenses (B)		51184.5
Operating profit before tax (A-B)		40.5
*25% WDV		
Balance Sheet as on 31st March 2016		
		£
Fixed Assets		
Tangible Assets	338	
Depreciation	84.5	253.5
Office Supplies and Utilities	1000	
Depreciation	250	750
Current Assets		
Cash in hand and at Bank	1561	
Cash brought in as additional investment	53000	
Loss on account of operations	375.5	
Office Supplies and Utilities purchased	1000	53936.5
Total Assets		54940
Current Liabilities		240
Total Assets less Current Liabilities		**54700**
Capital and Reserves		
Called up share capital	1	
Additional capital introduced	53000	53001
Profit and loss account	1658	
Transfer profit from current year	41	1699
Total Shareholders' Funds		**54700**

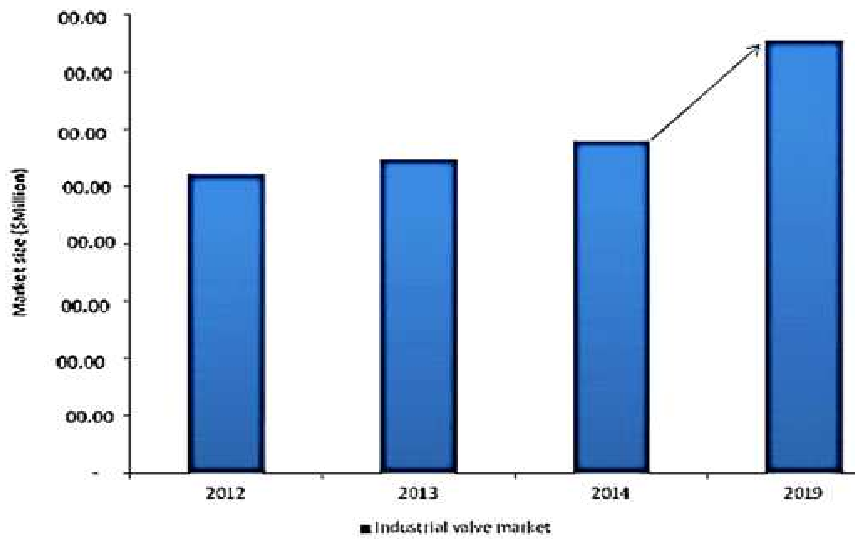
The demand for cost effective industrial valves and castings from Oil and Gas, Petroleum refining and chemical manufacturing companies was on the rise. Based on a report in the U.K, the emerging trend in this market is the growing demand for renewable energy casting. Metal castings will play a key role in the growth of all renewable energy sources such as biomass, geothermal heat pumps, hydropower, solar photovoltaic cells, and wind. The Casting and Forging Market in Europe is driven by several factors, one of them being increased demand for casting and forging from the automotive industry. Components such as cylinder heads, transmission housings, crankcases, engine blocks, pumps, bearings, suspension and bodywork parts, and wheels are produced using casting methods. A brief write up on the growing demand across, U.S, Asia pacific and Europe is given in the ensuing pages.

Global demand for industrial valves

Industrial valves market is being driven by increasing demand for valves in oil & gas, chemical and municipal applications. The market is expected to grow at a CAGR of 5.4% between 2014 and 2019. The market for oil & gas is estimated to be one of the largest markets for industrial valve from 2014 to 2019.

The market was segmented on the basis of type, and end-use application industry in terms of value. The market segments by end-use application industry include oil & gas, chemical, municipal, power, and others. The valve type segmentation includes market size of ball valves, globe valves, gate valves, butterfly valves, and others.

Product development has been one of the key strategies adopted by leading companies to accommodate the fast changing technologies in the end application industries like oil & gas and chemicals. Companies have also adopted expansion and acquisitions to bridge the existing gaps in their product offerings, the end market requirements, and the geographical constraints. These strategies have been adopted by leading companies to ensure retention of considerable market share within the highly fragmented market



(*source-www.marketsandmarkets.com*)

Africa is estimated to be one of the emerging markets for industrial valve market. Growing demand of petrochemical products like paints, polymers, plastics, and fuel additives is expected to boost the demand for industrial valves. Middle East market is expected to grow driven by the increase in the manufacturing as well as process industries. Rising desalination industry would also be a significant contributor to the industrial valve demand. Booming oil & gas production is one of the major driving factors for increasing demand for industrial valve in North America. Increasing demand from municipal, chemical and mining industries is boosting the Asia–Pacific market for industrial valves. Growth of alternative energy sources as well as nuclear energy for power generation is also expected to drive the demand for global market. The key players of industrial valves prefer agreements, contracts, joint ventures, and partnership strategies and product developments to garner a larger share in the market. Leading industrial valve manufacturers are focusing on the emerging countries that are estimated to show potential for industrial development in the near future (*Source-www.marketsandmarkets.com*).

Buoyed by the growing demand for valves and castings across the globe, Ram Kumar was seriously contemplating offering complete range of products and services to his clientele. He banked on offering consulting services in designing valves and helping clients procure components at a competitive cost, enabling focus on their core business. He decided to procure orders from his clients and get the components manufactured in India, and delivered in a timely manner to clients in the UK.

His initial plan was to import components only against the orders. But with growing demand, he decided to hold components in stock as inventory. Also, he had keen interests in expanding his venture to European countries. For his expansion plans, he would have to invest in manpower, infrastructure and concentrate more on marketing his business services across U.K and Europe. As per his estimates, an additional amount of £60000 would be required for the next two financial years (2016-2017 &2017-2018). Of the £60000, he intends to utilise £28000 in the year 2017-18. The remaining amount of £32000 would have to be procured through a bank loan for 2016-17. Banks in U.K offer loans at a concessional interest rate of 1% per annum for young and budding entrepreneurs. The loan tenure would be five years. Given his limited knowledge in the area of finance and accounting, the entrepreneur has prepared rough projections (financial statements) for the next two years, provided in the exhibits below. The banks are instisting on documents such as cash flow statements, statement of break even analysis and a report on the analysis of financial statements for quick processing and sanctioning of loans.

Exhibit II

Projected income statement for the year ending 31st March 2017

Particulars		**31-03-2017**
Turnover/Sales (A)	**£**	**98000**
Expenses		
Salary	62400	
Exhibition and Marketing	8800	
Business & Legal Insurance policies	450	
Continuing Education and Professional development	1000	
Taxi Hire Charges	1200	
Office rent and utilities	6600	
Depreciation		
Tangible assets	63.375	
Office Supplies and Appliances	562.5	
Total Expenses (B)		81075.875
Operating profit before tax (A-B)		16,924

Projected Balance Sheet as on 31st March 2017		
Fixed Assets		£
Tangible Assets	253.5	
Depreciation	63.375	190.125
Office Supplies and Utilities	750	
Depreciation	187.5	562.5
New Office supplies and Utilities	1500	
Depreciation	375	1125
Current Assets		
Cash in hand and at Bank	53936.5	
Profit on account of operations	17549.875	
Office Supplies and Utilities purchased	1500	69986.375
Total Assets		**71864**
Current Liabilities		240
Total Assets less Current Liabilities		**71624**
Capital and Reserves		
Called up Capital		53001
Profit and loss account	1699	
Transfer profit from current year	16924	18623
Total Shareholders funds		**71624**

Exhibit III

Projected Income Statement for the year ending 31st March 2018

Particulars		31-03-2018
Turnover/Sales (A)	£	124000
Expenses		
Salary	93600	
Exhibition and Marketing	14400	
Business & Legal Insurance policies	450	
Continuing Education and Professional development	1000	
Taxi Hire Charges	1200	
Office rent and utilities	6600	
Depreciation		
Tangible assets	47.5	
Office Supplies and Appliances	921.875	
Total Expenses (B)		151219.375
Operating profit before tax (A-B)		10,781

Projected Balance Sheet as on 31/03/2018		
Fixed Assets		£
Tangible Assets	190.125	
Depreciation	47.5	142.625
Office Supplies and Utilities	562.5	
Depreciation	140.625	421.875
New Office supplies and Utilities	1125	
Depreciation	281.25	843.75
New Office supplies and Utilities	2000	
Depreciation	500	1500
Current Assets		
Cash in hand and at Bank	69986.375	
Profit on account of operations	11750.375	
Capital introduced in 3 year	28000	
Office Supplies and Utilities purchased	2000	107736.75
Total Assets		**110645**
Current Liabilities		240
Total Assets less Current Liabilities		**110405**
Capital and Reserves		
Called up share capital	53001	
Additional capital introduced in 3 year	28000	
Profit and loss account	18623	
Transfer profit from current year	10781	110405
Total Shareholders funds		**110405**