

CASE CODE 07

SHILPI AND COMPANY

In November, 1978, Mr. Hopkins, Manager, Piketi Branch, Baroda of Kamini Bank was analysing an advance proposal from the proprietor of a small scale enterprise "SHILPI". The proposal had requested for long term loan and cash credit to the tune of Rs.85,000.00 The proposal apparently was a very lucrative one, with a novel product, intended to do lot of social service to those who were handicapped by the loss of limbs, whether natural (since birth) or caused by accidents. As a banker, however, Mr. Hopkins felt he should analyse the proposal carefully. He had the following information available to him.

THE FIRM

"SHILPI" was proposed to be established by 1st December, 1978, as a proprietorship firm in small scale industry by Mr. Patil with the aim of manufacturing and selling the cosmetic prostheses (CP). Cosmetic prostheses are synthetic products designed and fabricated to look life like, to camouflage disfigurements of human body. These include the artificial (synthetic) hands, legs, foot, fingers, ear, nose or such other limbs. Artificial limbs manufactured till date in the country were basically functional units. The cosmetic prostheses on the other hand provided cosmetic value (as they not only provide smooth profile but also complexion of skin as good as natural).

BACKGROUND OF MR. PATIL

Mr. Patil was a qualified and well known sculptor of Baroda. He acquired a diploma in sculpture from MS University, Baroda in 1965-69 and started his career as a Medical Sculptor in the "Cosmetic Prostheses Lab", Tata Department of Plastic Surgery, JJ Hospital, Bombay in 1969, where he continued till 1974. During 1974-75 he started experiments in Research and Development of an artificial but realistic copy of the human hand for use by the hand amputees.

The first experiment was the making of a perfect replica of the human hand in wax, Thereafter with the help of a friend, who had partnership in a doll and toy factory, he was able to use these techniques for making moulds for the wax copies of the human hand. Mr. Patil also persuaded a PVC Plastic concern to impart him the technical know how of the formulation of plastic. Finally the cosmetic hand was cast at the doll factory and in mid-1975, the first indigenous cosmetic hand was provided to a female patient, who was born without a hand from wrist below.

During this period he invested approx. Rs. 10,000 in studio, space, labour, new materials, and tools. He also advertised in local newspapers and received some response. Thereafter he registered several cases, out of which three persons were provided with cosmetic hands. Further development, however, was not possible for him due to lack of funds. At this time he did a project called "Maxinno Facil Cosmetic Prosthetics" which was accepted by the State Cancer and Research Institute.

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The case material is prepared as basis for class discussion. Cases are not designed to present illustrations of either the correct or the incorrect handling of managerial problems.

He borrowed Rs. 4500.00 from friends and purchased an oven, airgun, raw material and miscellaneous tools. Again he advertised in papers and received some response, but finally these could not materialise as most of these persons wanted custom built cosmetic hands.

In, 1976 Mr. Patil created a life-sized life-like replica of Chnstian Nativity. This drew a lot of publicity from newspapers, as a result of which one of the professors of a Institute of Management offered to recommend him to some bank for a loan. In 1978, a tailoring shop required a life size life like mannequin which Shilpi supplied @ Rs.800/=.

In 1975 Mr. Patil had presented a paper titled "Cosmetic Hand Protheses as a means of Social Rehabilitation" at hand surgery conference held at VS Hospital, Ahmedabad. After the conference, in 1976, the Artificial Limb Centre (ALC) at Poona deputed a representative to discuss the supply of cosmetic hands. However, no agreement could be reached as Mr. Patil demanded a rate of Rs.250.00 per piece and a firm order of bulk supply.

In mid 1976 one Col. Vikram (retd.) approached him to see the cosmetic hand and discuss the business. Col. Vikram was one of the founders of ALC, Poona and later opened his own centre a Delhi. Mr. Patil tried to get a bulk order from him also, but discovered that Col. Vikram's centre was not organised for such purpose. This he found out only when he visited the centre in 1977. Mr. Patil could not get necessary bank loan due to lack of firm orders as it was a condition of the bank. He also approached wealthy individuals of Baroda for the finance, but was refused as they did not have confidence in the viability of the project. Mr. Patil also approached GSFC but the formalities puzzled him. Another bank refused the loan because he was already employed.

He also received an order of 100 nos. small portraits of "Rang Avadoot" to be made in plaster of pans. He also tried to start production of plastic mannequin, but failed due to lack of finance. Finally he gave up all this side business because it started affecting his family finance. Soon after he also lost one extension project called "Cosmetic Hand Protheses" due to paucity of funds.

At the time of starting SHILPI, Mr. Patil was incharge, of a laboratory at the State Cancer and Research Institute at a monthly salary of Rs. 1200.00. However he had decided to resign after establishing the firm.

REQUEST FOR BANK CREDIT

At this stage Mr. Patil decided to set up a firm and request some commercial bank to provide credit facilities. He made-an application to Kamini Bank for the following facilities. These were requested under the scheme of self-employment for technicians:

Fresh Term Loan (3 Year)	Limit	Rs. 37,000
Fresh Demand Loan (Clean)		Rs. 8,000
Fresh Cash Credit (Hypothecation)	"	Rs. 30,000
Fresh Clean Cash Credit	"	Rs. 10,000
		Rs. 85,000

The cost of the project given by Mr. Patil was as shown below:

FIXED ASSETS

Rs. 6,000/= Refundable deposit
Rs. 2,000/= Interior alterations in the Building
Rs. 37,000/= Machinery, Equipment and Tools

Rs. 45,000/-

Working Capital

Rs.30,000/- Raw Material
Rs.11,000/- Labour (6 months)
Rs. 2,100/- Rent (6 months) Rs.43,100/-

Total Rs. 88,100/-

Borrowings from other sources were indicated as below :

Mr. Pancholi Rs. 1,500.00
Mr NA Shah Rs. 3,000.00
Mr. A. Gardener Rs. 500.00
Mrs. M. Patil Rs. 10,000.00

Rs. 15,000.00

The bank enquired about the means and standing of the borrower. The following information was made available to the bank.

Total Assets	Rs. 8100
comprising FDR with CBI	Rs. 1200
SB A/c with CBI	Rs. 900
Cost of Machinery	Rs. 3000
Purchased Household	Rs. 2000
Accumulated PF	Rs. 1000
	Rs. 8100

Annual income of the borrower Rs. 1400/=.

Market for SHILPI Products

There were no artificial, cosmetic realistic hand manufacturers in the country. However, one could import a stock hand from Japan @ 70000 yen, from USA for US \$ 550, from UK for pound 300 and from Germany for DM 500 for.

The bulk of hand amputees in India come from armed forces and industrial labour. In the

case of armed forces hand amputees, the ALC, Poona catered to their needs at government cost. Civilians could also avail the facilities at this centre for cosmetic hands imported from abroad @ Rs. 250.00 after the same is subsidised by the government, compensation for medical services, artificial aids etc. Before Mr. Patil left his job at Bombay in 1974, he felt that there definitely exists a need for cosmetic hands. However, such an item should be available from some Indian manufacturers at low cost.

Mr. Patil also felt that the prospects of Mannequin were as below:

- | | |
|------------------------------|--------------------------|
| 1. Saree Retailers | 6. Wrist Watch Retailers |
| 2. Cloth Retailers | 7. Opticians |
| 3. Readymade garment Retails | 8. Barbers |
| 4. All tailors | 9. Hair Stylists |
| 5. Jewellers | 10. Hosiery Retailers |

MARKETING STRATEGIES

Although no systematic market survey was conducted, Mr. Patil had identified the potential customer. He had also decided that he would be pursuing sales of the cosmetic hand with the following :

1. Artificial Limb Centre (ALC) Poona
2. Artificial Limb Centre, Orissa
3. Artificial Limb Centre, Kanpur— and its 16 Centres
4. All India Institute of Medical Science, New Delhi
5. All India Institute of Physical Medicine, Bombay
6. Artipedix, Vijaywada
7. Nevedac, Chandigarh
8. 13 Prostheses Centres all over India and Sri Lanka
9. Bonny Orthopaedics, Ahmedabad
10. J.J. Hospital, Bombay
11. Jaslok Hospital, Bombay
12. Gujarat Cancer & Research Institute, Ahmedabad
13. 3443 Hospitals all over the country
14. ESIS Central and State Government
15. 10 old patients of mine
16. Solicit custom built orders
17. Individuals who come in direct response to advertisements.

Mr. Patil also explained to the bank as to how he proposes to promote the product and market, the sales arrangement.

- a) In December 1978, he would be inviting all the doctors in India, who were members of orthopedic and plastic surgery, cancer, pediatricians, oosterticians, physiotherapy,. occupational therapy, prosthetic arthritic and cosmetic prosthetics associations.
- b) In the same month he would be placing a 2 column x 10 cans. advertisement in the *Times of India* and all local Gujarati newspapers to publicise that such an activity has started.
- c) He would establish consulting rooms on sharing basis, in Ahmedabad, Baroda, Rajkot and

Bombay.

- d) Simultaneously he would concentrate on liaison with the Rotary, Lions and Jaycee Clubs and The Red Cross.
- e) He would establish special contacts in Tamil Nadu where the government has sanctioned over a crore of rupees towards aid for handicapped during the Year of the Child of 1979.
- f) He would register with Small Scale Industries Service Institute for the stores purchases arrangement and for sales to central and, state governments.
- g) In 1979, after a period of sales, he would apply for the import substitution award.
- h) When the first samples of cosmetic hands were ready, he would have them photographed, make catalogue and mail them to the above listed potential bulk customers.
- i) He would personally tour nearby areas to promote sales.

The sales arrangements for mannequins, Mr. Patil thought, would be on the following lines:

- a) As soon as the first samples are ready, we would prepare a photograph album, and go down personally to enlist as many customers as possible.

The same would appear in all newspapers published in Gujarat.

- b) We would also advertise that we also repair old mannequins, purchased from parties outside. - Baroda.
- c) The shops supplied with mannequins by us would be offered Window Display services for a month as sales incentive.

For securing government orders Mr. Patil thought of the following strategy,

- a) If he can succeed he would try to persuade the ministry of health to ask the ALC and its 16 centres to promote my cosmetic hand.

Again he would try to persuade the central and state ESIC departments to recommend by cosmetic hand.

- b) He would contact the government departments, which purchase a standardised stock of patterns.
- c) If the ALC, Poona purchased in bulk from his standardised stock of pattern, he would be dealing directly with the ministry of defense.

Mr. Patil also felt there was considerable export potential. The cosmetic hand costs very high in foreign countries : e.g.

- a) Cosmetic hand custom-built in USA costs US \$ 550
- b) Cosmetic hand custom-built costs 70000 yen in Japan
- c) Cosmetic hand from standardised stocks from Germany costs approx. DM 500.
- d) Cosmetic hand from standardised stocks from UK costs approx. pound 300.

While the cost of standardised pattern cosmetic would be within Rs. 100.00 he expected the SHILPI cost for custom built hand to be around Rs. 2000.00.

Mr. Patil therefore had also thought of tapping some of the export potential available. He

decided that as soon as the catalogue and price-list was ready, he would write to all Indian consultants abroad to contact various agencies for imports.

Towards this he had written in the meantime to the United Nations and also to the World Rehabilitation Fund in this connection and was expecting a favourable response.

About terms of sales, Mr. Patil had decided against credit sales except in very special cases.

PRODUCTION AND PROFITABILITY

SHILPI production capacity was planned as below:

1. Approx. 2000 Nos. (Cosmetic hands per month) covering three basic types namely:
 - a) Cosmetic hand with zip.
 - b) Cosmetic hand with a glove
 - c) Cosmetic hand with pinch.

Initially there will be three sizes for males and one size for female, making it to about 48 varieties.

These would be mass produced standardized patterns, anyone of which will cost not more than Rs. 100.00.

2. Approx. 100 Nos. Mannequins (every month)

Mr. Patil expected an annual production and sales at the following level:

- a) Cosmetic hands— minimum of 2000 nos.
- b) Mannequins— minimum of 300 nos.

To the bank's enquiry on the cost of production and profitability Mr. Patil answered as follows:

"Since I am not able to answer this in the stereotype form, I could state as below:

The production programme proposed for the first year is:

- a) 2000 cosmetic hands (at an average of Rs.50/- margin per piece) = Rs. 1 lakh
- b) 200 Mannequins (at an average of Rs.500/- margin per piece) = Rs. 1 lakh

For a total capital employed of Rs. 88,100, the total returns on the above targets would be Rs. 2 lacs".

PRODUCTION FACILITIES AND RAW MATERIALS

The production facilities did not include many plant and machineries. Basically SHILPI required

- a) A rotational slush casting machine (oven) and associated control panels.
- b) A Cooling tank
- c) A mixer-cum-de-aerator

The other equipment were small items such as a compressor, vacuum machine, Avery weighing machine, laboratory balance, life study stand, jig and fixtures etc.

Of these machines the rotational slush casting machine required for the manufacture of cosmetic hand was the most expensive one. There was no indigenous manufacturer of the machine. The imported machine would cost around Rs. 3 lakh.

Mr. Patil therefore designed the machine himself and ordered for its manufacture in one of the local equipment manufacturing company. The machine could also be used for manufacture of a variety of other objects. The, machine would thus facilitate diversification to other consumer products in future.

On the raw material front Mr. Patil did not expect any problems as most of the raw material required for product (40/46) were available in local market. The rest were available in Bombay. About the other inputs namely power, water and labour no difficulty was expected.

There were only three other persons, apart from Mr. Patil to work for SHILPI. One was a (part-time) accountant and the others were labour who were being trained in specific tasks.

Question

Should Mr Hopkins sanction the proposal for advance or not? Give reasons.