



National Institute of Bank Management

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Case on Mahesh Industries

Introduction

It was 10:30 am on February 2, 2024, when Vaishali, the seasoned senior manager at Commercial Bank's main branch in Pune reviewed her day's agenda, aware of the looming end-of-quarter targets. Rajesh, a diligent member of the credit team, walked in and said, "Vaishali Ma'am, this is the loan application for Mahesh Industries," and handed her the file. Mahesh Patil, a 28-year-old entrepreneur, was seeking a working capital loan of ₹15 lakh to meet the rising demand for his precision machining services. He had started the venture in 2019 after working as a machine operator at Mercedes-Benz. Mahesh's credit profile and collateral were strong, but Vaishali wanted to ensure a thorough review before taking a call on the loan application.

Mahesh's Journey

Born and raised in Pune, Mahesh Patil held a Diploma in Mechanical Engineering. After working at Mercedes-Benz, Mahesh followed his dream of entrepreneurship and, in 2019, established Mahesh Industries in Pimpri-Chinchwad. His initial capital came from a ₹4 lakh loan from Urban Cooperative Bank, which he used to buy machinery and start operations.

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Disclaimer: The case is meant for classroom discussions only and the names of individuals and organisations have been changed in order to maintain anonymity. The views or opinions presented do not, in any way, reflect the views and opinions of the institution the author represents.

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Mahesh Industries, a proprietary firm, had steadily grown over the past five years, focusing on precision machining jobs such as drilling, tapping, milling, and lathe work. The firm operated from an 800 sq. ft. leased shop with state-of-the-art equipment, including two lathe machines and three milling machines. Mahesh oversaw eight skilled operators who helped fulfill orders for major clients such as Omicron Engineering, Infinity Engineering, and Shree Ganesh Engineering.

Mahesh's Business Model

Mahesh Industries generated revenue from both machining services and manufacturing of spare parts for special-purpose machines. The firm maintained close relationships with its suppliers, procuring materials like steel and aluminum on credit. Its largest client, Omicron Engineering, specialized in jig fixtures, contributing significantly to the firm's revenue.

The Loan Application

Now, with orders totaling ₹48-50 lakh for the coming year, Mahesh needed ₹15 lakh in working capital. The loan would be used primarily to procure raw materials and hire additional labour to meet the rising demand. Mahesh's credit profile was strong: his TransUnion CIBIL score was 773, and his Experian Credit score was 841.

GST Compliance

Mahesh Industries had consistently filed GSTR-3B returns, reflecting its business activity. For the period July–September 2023, Mahesh Industries reported outward taxable supplies worth ₹7,77,067 and an integrated tax liability of ₹57,384. The firm claimed eligible input tax credit (ITC) of ₹719.82 for integrated tax and ₹8,489.92 for both central and state tax. Details of GST for the quarter July–September 2023 are provided in Exhibit 1.

In December 2023, the firm reported 40 invoices with a total value of ₹11,26,995.84 and a taxable value of ₹9,81,396. The tax liability for central and state taxes was ₹72,800.37 each (a brief about GST is given in Box 1 below).

Box 1

Goods and Services Tax (GST) is a comprehensive, multi-stage, destination-based tax system in India, designed to simplify the indirect tax structure by replacing numerous previous taxes. GST is divided into CGST (Central GST), for transactions within a state, SGST (State GST), which is also for intra-state transactions, and IGST (Integrated GST) for inter-state transactions.

Businesses registered under GST are required to file periodic returns, including GSTR-1, GSTR-2A/B, and GSTR-3B. GSTR-1 is a return where taxpayers report their outward supplies (sales), detailing invoices and sales made. GSTR-2A is an auto-generated form that reflects the recipient's inward supplies (purchases) based on their suppliers' GSTR-1 filings, aiding in the verification of input tax credits. GSTR-2B is a static, monthly auto-drafted form that provides eligible and ineligible input tax credits for recipients. Finally, GSTR-3B is a monthly summary return that reports outward supplies, input tax credits, and tax payable, and is used for tax payment. These returns collectively help ensure accurate tax compliance and smooth reconciliation of sales, purchases, and input tax credits.

GST plays a crucial role in the credit appraisal process for bankers by providing reliable financial data that enhances the assessment of a borrower's creditworthiness. GST returns help in credit appraisal by verifying sales, assessing tax compliance, analysing cash flows, identifying business growth, and evaluating sector-specific risks, providing lenders with reliable financial insights to assess a business's creditworthiness.

Financial Data

Mahesh Industries' financial performance over the last few years showed steady growth. The table below provides a summary of the key financials:

<i>Year</i>	<i>Net Sales (₹ in Lakh)</i>	<i>Gross Profit (₹ in Lakh)</i>	<i>Net Profit (₹ in Lakh)</i>	<i>Retained Profit (%)</i>
2022	18.21	6.56	4.97	100%
2023	36.11	9.67	5.15	100%
2024 P	45.00	10.40	6.82	100%
2025 E	49.50	11.52	6.70	100%

The historical as well as projected financials of the company as per the CMA format are presented in Exhibit 2. Details of book debts and stock are presented in Exhibits 3 and 4 respectively.

Vaishali's Concerns

Vaishali, with her extensive experience, had a few concerns regarding the loan application. She questioned whether the ₹15 lakh loan request was sufficient given the rapid growth in orders and the reliance on stock and receivables as collateral. Additionally, she emphasized that the credit evaluation should go beyond the standard Maximum Permissible Bank Finance (MPBF) approach and include other methods such as:

1. Operating Cycle Method: To determine how quickly the company converts inventory into cash.
2. Cash Flow Analysis: To evaluate liquidity and the ability to meet short-term obligations.

Conclusion

Mahesh Industries represented a promising business with a strong track record and excellent growth potential. However, careful consideration must be given to the adequacy of the loan request, the nature of the collateral offered, and the operational risks associated with scaling the business. Vaishali and her team would have to ensure that the loan structure can adequately support Mahesh's growth while protecting the bank's interests.

Exhibit 1: GST Statements of Mahesh Industries

The GSTR-3B form is a monthly return for summary of outward and inward supplies and input tax credit (ITC) claim. The few select data found in the GSTR-3B of Mahesh Industries were as follows:

- For the period of July–September 2023, the company reported outward taxable supplies of ₹7,77,067 with an integrated tax liability of ₹57,384.
- The company claimed an eligible ITC of ₹719.82 for integrated tax, ₹8,489.92 for central tax, and ₹8,489.92 for state/UT tax.
- For the period of December 2024, the company reported 40 invoices with a total invoice value of ₹1,126,995.84 and a total taxable value of ₹9,81,396.
- The total Central Tax and State/UT Tax payable was ₹72,800.37 each.
- There were no large (B2C) invoices or credit/debit notes reported.

Exhibit 2: Financial Statements in CMA Format**I. Profit and Loss Statement**

(₹ in Lakh)

		2022	2023	2024	2025	2026
		<i>Audited</i>	<i>Audited</i>	<i>Prov.</i>	<i>Estimates</i>	<i>Projections</i>
1	Gross Sales	18.21	36.11	45.00	49.50	54.45
	Domestic	18.21	36.11	45.00	49.50	54.45
	Export	0.00	0.00	0.00	0.00	0.00
2	Less: Excise Duty	0.00	0.00	0.00	0.00	0.00
3	Net Sales (1-2)	18.21	36.11	45.00	49.50	54.45
	% Age Rise (+) OF (-) in Net Sales		98.30%	24.62%	10.00%	10.00%
	Other Operating Income	0.00	0.00	0.00	0.00	0.00
4	Total Operating Revenues	18.21	36.11	45.00	49.50	54.45
	Cost of Sales					
	Raw Materials Consumed					
	-Imported	0.00	0.00	0.00	0.00	0.00
	-Indigenous	5.09	15.79	26.66	25.68	28.67
	Other Spares/Other Trading Exp.					
	-Imported	0.00	0.00	0.00	0.00	0.00
	-Indigenous	0.00	0.00	0.00	0.00	0.00
	Power and Fuel	0.48	0.58	0.78	0.86	0.94
	Direct Labour	4.69	7.76	9.00	9.90	10.90
	Other Mfg. Expenses	0.92	1.02	1.14	1.25	1.38
	Depreciation	0.47	2.25	0.34	0.29	0.24
	Research & Development Cost					
	SUBTOTAL	11.65	27.40	37.92	37.98	42.13
	Add: Opening SIP	0.00	0.00	0.96	4.28	4.28
	Subtotal	11.65	27.40	38.88	42.26	46.41
	Deduct: Closing SIP	0.00	0.96	4.28	4.28	4.71
	COST OF PRODUCTION	11.65	26.44	34.60	37.98	41.70
	Add: Opening Stock of F.G.	0.00	0.00	0.00	0.00	0.00
	Subtotal	11.65	26.44	34.60	37.98	41.70

		2022	2023	2024	2025	2026
		<i>Audited</i>	<i>Audited</i>	<i>Prov.</i>	<i>Estimates</i>	<i>Projections</i>
	Deduct: Closing Stock of F.G.	0.00	0.00	0.00	0.00	0.00
5	SUBTOTAL (COST OF SALES)	11.65	26.44	34.60	37.98	41.70
6	Gross Profit (4-5)	6.56	9.67	10.40	11.52	12.75
7	Interest	0.00	0.00	0.19	1.15	1.15
8	Selling, General & Administration Expenses	1.59	4.52	3.15	3.47	3.81
9	SUBTOTAL (6+7+8)	13.24	30.96	37.94	42.60	46.66
10	OPERATING PROFIT (4-9)	4.97	5.15	7.06	6.90	7.79
11	Other Income and Expenses					
	Add: Income	0.00	0.00	0.00	0.00	0.00
	Deduct: Expenses	0.00	0.00	0.00	0.00	0.00
	SUBTOTAL	0.00	0.00	0.00	0.00	0.00
12	PROFIT BEFORE TAX (10-11)	4.97	5.15	7.06	6.90	7.79
13	Less: Provision for Taxes	0.00	0.00	0.24	0.20	0.46
14	NET PROFIT/LOSS (12-13)	4.97	5.15	6.82	6.70	7.33
15	Equity Dividend Paid	0.00	0.00	0.00	0.00	0.00
16	RETAINED PROFIT (14-15)	4.97	5.15	6.82	6.70	7.33
17	Retained Profit Percentage	100.00%	100.00%	100.00%	100.00%	100.00%

II. Balance Sheet

A. ANALYSIS OF BALANCE SHEET (LIABILITIES)

(₹ in Lakh)

	2022	2023	2024	2025	2026
	<i>Audited</i>	<i>Audited</i>	<i>Prov.</i>	<i>Estimates</i>	<i>Projections</i>
CURRENT LIABILITIES					
Short-term Borrowings from Banks					
a. From Applicant Bank	0.00	0.00	10.00	10.00	10.00
b. From Other Banks	0.00	0.00	0.00	0.00	0.00
SUBTOTAL (A)	0.00	0.00	10.00	10.00	10.00
ST Borrowings from Others	0.00	0.00	0.00	0.00	0.00

	2022	2023	2024	2025	2026
	Audited	Audited	Prov.	Estimates	Projections
Deposits (Maturing in 1 Yr)	0.00	0.00	0.00	0.00	0.00
Sundry Creditor (Trade)	2.28	2.98	1.95	2.14	2.35
Sundry Creditor (Other)	0.00	0.00	0.00	0.00	0.00
Unsecured Loans					
Advance Payments from Customers	0.00	0.00	0.00	0.00	0.00
Deposits from Dealers	0.00	0.00	0.00	0.00	0.00
Interest & Other Charges Accrued, but Not Due for Payment					
Provision for Taxation	0.00	0.00	0.00	0.00	0.00
Dividend Payable	0.00	0.00	0.00	0.00	0.00
Other statutory Liabilities (Due within One Year)	0.00	0.00	0.00	0.00	0.00
Deposits/instalments of Term Loan/DPGs/Debentures, etc. (Due within One Year)	0.00	0.00	0.00	0.00	0.00
Other Current Liabilities & Provisions (Due within One Year)	0.00	0.00	0.00	0.00	0.00
SUBTOTAL (B)	2.28	2.98	1.95	2.14	2.35
TOTAL CURRENT LIABILITIES (A+B)	2.28	2.98	11.95	12.14	12.35
TERM LIABILITIES					
Debentures (Not Maturing within 1 yr)	0.00	0.00	0.00	0.00	0.00
Preference Shares (Redeemable after 1 Yr but before 12 Yrs)	0.00	0.00	0.00	0.00	0.00
Term Loans	0.00	0.00	0.00	0.00	0.00
Bridge Loans					
Term Deposits (Repayable after One Year)	0.00	0.00	0.00	0.00	0.00

	2022	2023	2024	2025	2026
	Audited	Audited	Prov.	Estimates	Projections
Other Term Liabilities	0.00	0.00	0.00	0.00	0.00
TOTAL TERM LIABILITIES	0.00	0.00	0.00	0.00	0.00
TOTAL OUTSIDE LIABILITIES	2.28	2.98	11.95	12.14	12.35
NET WORTH					
Ordinary Share Capital	13.34	15.09	17.82	20.50	23.43
Preference Share Capital (Maturing after 12 Yrs)					
General Reserve	0.00	0.00	0.00	0.00	0.00
Revaluation Reserve	0.00	0.00	0.00	0.00	0.00
Other Reserves (Excl. Provisions)	0.00	0.00	0.00	0.00	0.00
Surplus (+) or Deficit (-) in P & L Account	0.00	0.00	0.00	0.00	0.00
NET WORTH	13.34	15.09	17.82	20.50	23.43
TOTAL LIABILITIES	15.62	18.07	29.77	32.64	35.78

B. ANALYSIS OF BALANCE SHEET (ASSETS)

(₹ in Lakh)

	2022	2023	2024	2025	2026
CURRENT ASSETS					
Cash and Bank Balances	0.25	0.66	0.78	0.90	0.65
INVESTMENTS					
(a) Govt. & Other Trustee Sec.	0.00	0.00	0.00	0.00	0.00
(b) FD in Banks	0.00	0.00	0.00	0.00	0.00
a) Receivables Other than Deferred & Export Receivable Due in One Yr.	4.48	4.63	11.25	12.38	13.61
b) Export Receivables	0.00	0.00	0.00	0.00	0.00
Instalments of Deferred Receivables	0.00	0.00	0.00	0.00	0.00

	2022	2023	2024	2025	2026
Inventory					
a) Raw Material (Incl. Stores)	0.00	0.96	4.28	4.28	4.71
b) Stock in Process	0.00	0.00	0.00	0.00	0.00
c) Finished Goods	0.00	0.00	0.00	0.00	0.00
d) Other Consumable Spares	0.00	0.00	0.00	0.00	0.00
Advance to Suppliers of Raw Materials & Store/Spares	0.00	0.00	0.00	0.00	0.00
Advance Payment of Taxes	0.00	0.00	0.00	0.00	0.00
Other Current Assets	8.03	9.57	11.54	13.46	15.43
TOTAL CURRENT ASSETS	12.76	15.82	27.85	31.02	34.40
GROSS BLOCK	3.53	5.17	5.17	5.17	5.17
Depreciation to Date	0.67	2.92	3.26	3.54	3.79
NET BLOCK	2.86	2.25	1.91	1.63	1.38
OTHER NON-CURRENT ASSETS					
a) Investment in Subsidiary Companies/Affiliates, etc.	0.00	0.00	0.00	0.00	0.00
b) Advances to Suppliers of Capital Goods/Spares & Contractors for Capital Exp.	0.00	0.00	0.00	0.00	0.00
c) Deferred Receivables (Maturing beyond 1 Yr.)	0.00	0.00	0.00	0.00	0.00
Others	0.00	0.00	0.00	0.00	0.00
Non-consumable Stores & Spares					
Other Non-current Assets (Incl. Due from Directors)	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER NON-CURRENT ASSETS	0.00	0.00	0.00	0.00	0.00
INTANGIBLE ASSETS	0.00	0.00	0.00	0.00	0.00

	2022	2023	2024	2025	2026
TOTAL ASSETS	15.62	18.07	29.76	32.65	35.78
TANGIBLE NET WORTH	13.34	15.09	17.82	20.50	23.43
NET WORKING CAPITAL	10.48	12.84	15.90	18.88	22.05

Exhibit 3: Debt Books Statement

Sundry Debtors	
Particulars	Amount
Ceryle Innovative Technologies	₹ 13,289.00
Konem Pvt. Ltd.	₹ 8,923.00
Vedant Enterprises	₹ 34,970.00
Infinity Industries	₹ 2,39,867.00
Omicrons Engineering	₹ 4,25,000.00
Pegasyms Machine Private Limited	₹ 5,23,000.00
Terraautomotive Tooling and System Private Limited	₹ 2,06,000.00
Grand Total	₹ 14,51,049.00
Sundry Creditor	
Saraswati Metals	₹ 15,456.00

Exhibit 4: Details of Inventory as on December 31, 2023

S. No.	Description	Material	QTY (No.)	Unit Price	Total Value
			Available		
(A) Stock of Raw Materials					
1	Dross Pot Plates	MS	12	400	4800
2	Sheets	SS 304	3	6000	18000
3	T Block	MS	18	1400	25200
4	MS Plates	MS	13	500	6500
5	MS Round Bars	MS	30	800	24000
6	D2 Flat	D2	3	7315	21945
7	SS Round	SS 304	5	1350	6750
8	Blade Material	D2	250	450	112500
	Total				219695
(B) Stock of Semi-Finished Parts					
1	SS Pipe 19 OD xl.5mm THK	SS 304	25	800	20000
2	Sq Tube 50x50x2mm	SS 304	1	6900	6900
3	SS Angle 50x50x5	SS 304	1	13336	13336
4	8x4x1 mm Sheet	SS 304	2	8033	16066
5	SS Plate / Round	SS 304	4	906	3624
6	Drop Box	Cast Nylon	2	30000	60000
7	SS sq. Tube	SS 304	9	4000	36000
8	MITZ BKT	MS	25	1700	42500
9	Drop Box	Cast Nylon	4	34500	138000
	Total				336426

S. No.	Description	Material	QTY (No.)	Unit Price	Total Value
			Available		
(C) Stock of Finished Parts as on December 31, 2023					
1	SS Wire Ropes 65+1	SS 304 + PA6	3	28600	85800
2	SS Wire Ropes 18+1	SS 304 + PA6	5	8227	41135
3	SS Wire Ropes 9+1	SS 304 + PA6	5	4330	21650
4	D2 Blade	D2	50	240	12000
5	D2 Blade	D2	3	2500	7500
6	T Block	MS	12	1400	16800
7	SS Manifold	SS 304	16	4000	64000
	Total				248885
	Total=A+B+C				805006