

## A Predicament for Kushal Enterprises

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### Abstract

The case revolves around Kushal Enterprises, a company in the fastener industry. The annual turnover of the company is around 20 crores and it was planning to increase the turnover to 35 crores in the next 5 years with the help of their skilled and loyal manpower. Nearly 85% of the employees had an average tenure of 15 years. The founder Mr. Tanwani, believes that financial liabilities can be deterrence in the existing stability. The slowdowns in the automobile industry and the opportunities available in the foreign industries had forced the core management team of Kushal Enterprises to critically examine its current position and to choose between the ongoing traditional and safe approach of Mr. Tanwani and the ambitious course of action suggested by his son Eshan.

**Key words:** *market growth, expansion, fastener industry, automotive industry*

### The Debate:

It was a regular day for Mr Ajay Tanwani, the founder and MD of Kushal Enterprises, an established player in the fastener industry. The company was based in Indore and catered to a few automobile giants in Pithampur (Madhya Pradesh). At dinner time with family, the discussion veered towards discussing the company's growth plans with his son Eshan, Mr. Tanwani mentioned that sustainable growth ensuring the growth of all stakeholder should be the guiding light for their business. Eshan, a recent graduate from USA had just joined his father's business. He argued that given the growth opportunity in the industrial fasteners market, (see **Exhibit 1**) they should be going

all out for capturing the market. When the discussion started turning into a heated debate, Mr. Tanwani assured Eshan that he would formally discuss this in the core management team of the company, into which Eshan had only been recently inducted, before deciding the future course of action. Eshan was not too sure, whether it was the extra scoop of his favorite ice-cream or the assurance of his father that his point of view would be discussed formally, due to which he completed his dinner with a feeling of satisfaction in the end.

### **Kaushal Enterprises -the background:**

Mr. Tanwani, a Mechanical Engineer from the batch of 1985 had started his career with an automobile company in Pithampur. He worked there for 17 years. The experience and exposure to various business functions in an automobile company combined with a desire to do something on his own, made him start Kushal Enterprises in 2003. It was founded with an aim to develop, manufacture and supply quality products. His relations with the decision makers in the automobile companies based in Pithampur and his personal goodwill helped him secure the business from those companies. Kushal Enterprises was into the manufacturing of 500 categories of high-tensile industrial fasteners available in Mild steel, Spring steel and Stainless Steel (see **Exhibit 2**) and had 35+ clients spread across the whole nation that included major companies like Eicher, Volvo, Rajsriya Automotive Industries, TAFE in Chennai, Ashok Leyland etc. A fastener meets or exceeds international standards of ISO and is TS certified.

**Plant location.** The plant was in Indore, which is the financial capital of Madhya Pradesh and is one of the richest cities in central India. Due to the textile mills which were operational till few years back, it had earned the name mini-Mumbai. The major industrial areas in and around Indore Pithampur, Dewas, Sanwer Road and Polo ground had varied industries. Pithampur, one of the largest hubs of automobile industries in India was popularly referred as the Detroit of India. Kushal enterprises was one of the leading sellers of listed products. It was also listed in Trade India's list of verified sellers offering supreme quality of fasteners.

**The growth plans.** The annual turnover of Kushal Enterprises was around 20 crores and they were planning to increase the turnover to 35 crores in the next 5 years. Mr. Tanwani believed in maintaining a gradual growth for his business and had so far been successful in it. This approach is also evident from the growth projections of the company shown in **Exhibit 3 and Exhibit 4**. With years of experience behind them in providing services, they had been continually improving their

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services to serve their clients better with timely deliveries, round the clock helpline and seamless customer service.

**The manpower.** They had 18 managers and executives in their operational teams and 80 blue collared Employees. The plant operations were also supported by contractual staff as per the demand (see **Exhibit 5 and Exhibit 6**). The team was experienced and dedicated towards providing 100% customer satisfaction.

**Quality standards.** They were complying with all the norms and specifications required by their buyers and met the requisite quality standards. Their operations complied with the requirements of IATF 16949:2016 and ISO 14001:2015. Their manufacturing potential included cold forging, thread rolling and straightening, CNC units, in-house heat treatment processes (Continuous & Batch) and in-house plating/coating. (see **Exhibit 7 and Exhibit 8**).

**Financial stability.** Mr. Tanwani believed that financial stability was a key to success in the fastener industry. Being in business for two decades and still not carrying any financial liabilities was an outcome of the efforts of producing quality product, selling on comparatively low price and managing good relationship with high profile clientele. He strongly believed that financial liabilities could be a deterrence in the existing stability. Though he had purchased land for the third unit near the existing plant, he had kept his plans to start the plant on hold because of the recent recession in the automobile industry. This had also forced him to run one shift only in his existing plant instead of the usual three shifts.

### **Fastener Industry in India:**

Fasteners are used in diverse sectors hence their demand has generated a huge opportunity in the Indian manufacturing sector. Various types of bolts, screws, nuts, washers, clamps, clips, spacers, shims etc. are manufactured in India for various clients in India and abroad. Auto industry as the largest consumer of the fasteners, accounts for 75% of the market share. Construction activities and the growth of the automobile industry are the drivers for the growth of the fastener industry. The Indian industrial fasteners market is expected to reach a value of INR 460 Billion by 2023 expanding at a CAGR of 9.6% from 2018. Traditional channels of distributors and direct dealers are used for distribution in this industry along with online channels and industrial events. The

growth opportunity of this industry has also attracted various multinational players to focus on the Indian markets which have the advantage of an aspiring youth population, availability of skilled manpower and increased purchasing power.

High-tensile fasteners are used in the engineering sector, however mild steel fasteners are used in the automobile sector. There has also been a change in preference of manufacturing fasteners by using, iron, brass, stainless steel, aluminum, nickel and plastics and composites. Key national players in the industry were Lakshmi Precision Screws Limited, Sundaram Fasteners Limited, Precision Cast parts Corporation Fasteners and KOVA Fasteners Private Limited

***Kushal Enterprises' market position.*** Although Kushal Enterprises can be termed as more of a regional player since majority of their business comes from automobile companies based in Pithampur, their experience of working with established brands for good number of years could help them in gaining acceptability in new markets.

#### **Growth and Challenges of the Fastener Industry:**

Growth of the construction industry and automobile industry naturally aids in the growth of auto ancillaries. As fasteners are used in the manufacturing of automotive parts such as engines, suspension system, chassis etc., the industry surely has growth prospects in the years ahead. However, it also faced few challenges.

The usage of low-quality materials in fastener could result in accidents which could have catastrophic consequences for human life and for business. Therefore, the clients would never want to compromise on the quality. However, the main raw material was steel and the increase in price of steel which was influenced by international prices and demand supply forces could seriously affect the profitability of the manufacturers. An increase in price to meet the quality requirements would not be accepted easily by the clients as it increased the overall cost of automobiles.

#### **Future Plans of Kushal Enterprises:**

Mr. Tanwani attributed his success to the strong values inculcated in him by his family which he further nurtured in his organization as well as with his stakeholders. Average tenure of the employees in his organization was more than ten years and he continued to enjoy long and successful relationships with most of his customers.

However, he admits that the current times are too challenging for the overall industry and the financial stability his company enjoys is the reason why they will be able to sustain the recent slowdown. They are planning to increase the turnover to 35 crores in next 5 years. This, however, looks a herculean task looking at the ever-increasing demands with respect to quality by the customers and threat posed by entry of new players considering the low entry barriers in the fastener industry. The current operations of the company involve raw material processing, manufacturing, heat treatment, surface treatment and water treatment (see **Exhibit 9**). Expanding the current business would call for adoption of new technology and this was also likely to result in revolutionary changes in the plant as well as human resource planning.

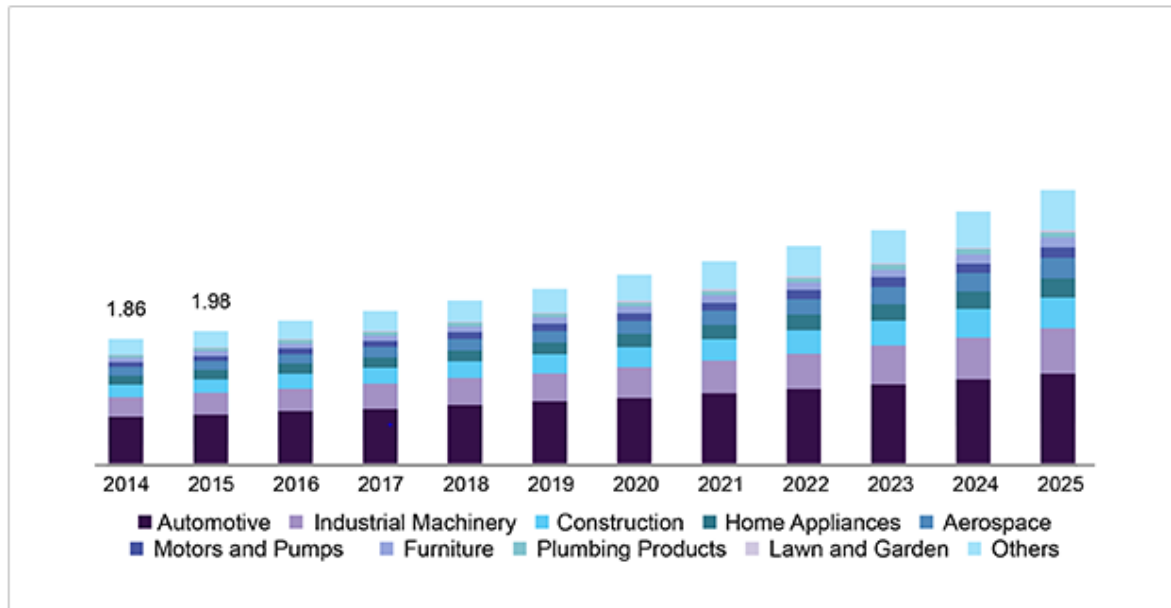
### **Future Predicament:**

As promised to Eshan, Mr. Tanwani called a meeting of the core management team in the office with the agenda of discussing the review of the current operations and the expansion plans. Eshan felt that the current levels of capacity utilization were good, but they were missing out on the market opportunities. Also, the pressures from the customers to maintain the quality standards while keeping the prices intact, would result in lower profit margins and it would be difficult for the company to sustain in the long run. He suggested that the company should go for considerable expansion in the next 6 months to capture some new markets globally and should bring some radical changes in the plant functioning.

By contrast, Mr. Tanwani was of the firm opinion that their basic philosophy of sustainable growth not only helps them in making deliverable action plans but also protects them from the risk of attracting undue competition. Moreover, he was also apprehensive about risking the financial stability of the company by investing heavily in the plant or setting up a new plant for exports. His old employees may not be as skilled as those of the multi-national companies operating in that region, but their commitment and honesty had always been the reason for the undying faith Mr. Tanwani had in them. Making some radical changes in the plant functioning, which might make his existing employees feel insecure and anxious about the change, risking their existing productivity, was not something Mr. Tanwani preferred. However, he had to take a call now on the future strategic course for the company. He was wondering whether he should postpone the expansion plan for at least a year.

**Exhibits**

**Exhibit 1: Market size of industrial fasteners in India , by application 2014-2025 (in US\$ bn)**



Source: www.grandviewresearch.com

**Exhibit 2: List of Parts Manufactured by Kushal Enterprises**

- Socket Screws
- Countersunk Screws
- Button Head Screws
- Spacers
- Flange Bolt
- Spring Steel Washer
- Plain Washer
- Shims
- Clamp
- Break Levers
- Sun visors
- Wear Plates
- Conical Washers
- Clips

**Exhibit 3 Business Plan and Projections for future (in crores)**

Objectives	2019	2023	2025
Sales	20	25	35
No. of customers	30	35	50
No of parts	500	750	1000
Exports	0	2	5

**Exhibit 4: Corporate quality plan and projections for future**

<b>Objectives</b>	<b>2019</b>	<b>2021</b>	<b>2023</b>
<b>Customer Complaints</b>	2	0	0
<b>Customer Rejection</b>	70 ppm	50 ppm	20 ppm
<b>In House Rejection</b>	800 ppm	500 ppm	400 ppm
<b>Machine Down-Time</b>	95%	97%	98%
<b>Delivery</b>	100%	100%	100%
<b>Supplier Performance</b>	90%	95%	100%
<b>Store Inventory</b>	50 lacs	40 lacs	25 lacs

**Exhibit 5: Employee strength and details**

<b>Title</b>	<b>Employee numbers</b>
<b>Director</b>	1
<b>Core Management Team</b>	5
<b>Sr. Executive</b>	2
<b>Jr. Executive</b>	10
<b>Blue Collars</b>	80
<b>Total</b>	<b>98</b>

**Exhibit 6: Division-wise employee strength**

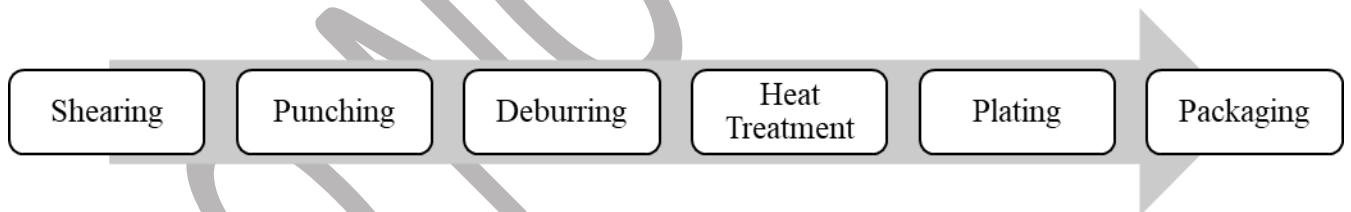
<b>Division-wise workforce</b>	<b>Employee numbers</b>
<b>Sales and Marketing</b>	4
<b>Purchase</b>	2
<b>HR</b>	2
<b>IT</b>	2
<b>Finance and Operations</b>	2
<b>Quality</b>	6

**Exhibit 7: List of Machineries**

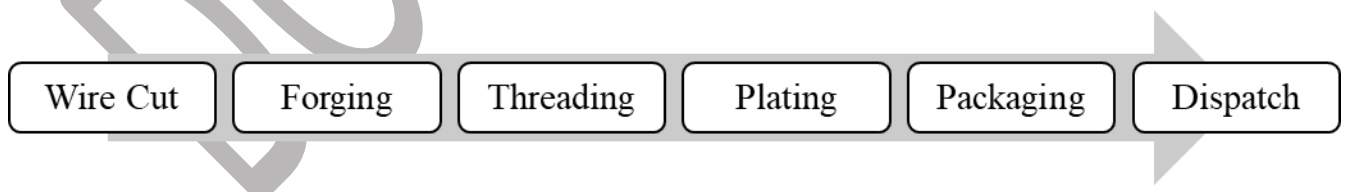
CNC Lathes	Power Presses 5 MT to 125 MT	Coil feeder (Automatic)	PVC coating ovens	Rotary surface grinder
Spot Welding	Lathes	Drill Machines	Shear Machines 8 mm	Heat Treatment Furnace
Tempering Furnace	Flat Bed Cutting Machine	High Frequency Welding M/c	S & cutting M/c	Multi station bolt former (Sakamura)
Screw header	Thread rollers	PLC pipe cutting machine	Milling M/c	Double Disc Grinder
MIG Welding Machine				

**Exhibit 8: Process followed in manufacturing Washers, Bolts and Clips**

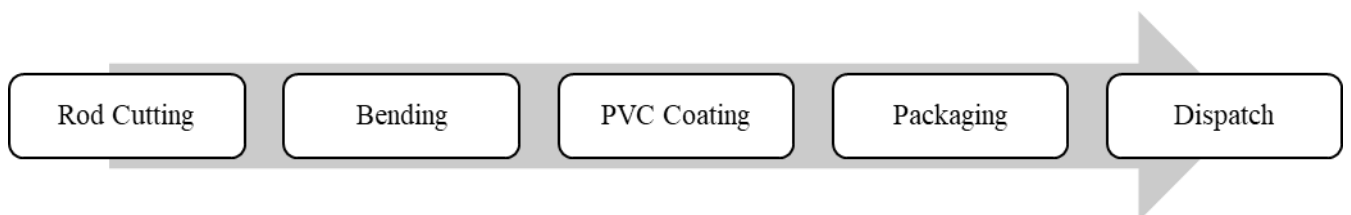
**Washer Manufacturing**



**Bolt Manufacturing**



**Clip Manufacturing**





**Exhibit 9: Entire process overview**

Raw material Processing	Manufacturing	Heat Treatment	Surface Treatment	Water Treatment
<ul style="list-style-type: none"> <li>• Sheet Metal Cut</li> <li>• Wire Annealing</li> <li>• Wire Pickling</li> <li>• Wire Drawing</li> </ul>	<ul style="list-style-type: none"> <li>• Cold Forge</li> <li>• Machining</li> <li>• Secondary Operations</li> </ul>	<ul style="list-style-type: none"> <li>• Continuous Furnace</li> <li>• Batch Furnace</li> <li>• Induction Hardening</li> </ul>	<ul style="list-style-type: none"> <li>• Electroplating</li> <li>• PVC Coating</li> </ul>	<ul style="list-style-type: none"> <li>• Process Effluent Treatment</li> <li>• RO Plant</li> <li>• Zero Liquid Discharge System</li> </ul>

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