Malhotra Wind Power Ltd

Ramji Lal Malhotra ran away from home when he was beaten up as a punishment by his father for trying to make a novel and efficient kite rather than study for his 11th class examination. Ramji Lal joined Indian Air force as an air frame mechanic. He became (Sergeant) Sgt. Malhotra in about a decade. He could have risen higher, but for his habit of asking questions that appeared to be ridiculous at times and hampered efficient and quick execution of the task of keeping the aircraft ready for flying. He decided to leave the Air force when his initial assignment was due to be over shortly. Air force helps prepare its personnel by getting them trained prior to leaving the IAF, so that they can fit in civilian life after release from the air force. Sgt Malhotra, at his request was sent for training in manufacturing techniques before release from the air force.

Mr. R.L. Malhotra, as the sergeant became after leaving the air force, set up a medium scale industry. His expertise from the days of designing a new kite and the years as an Air frame mechanic in air force were put to best use, because he chose to develop and manufacture a small wind mill. He got a trial order from DRDO for a wind mill for lifting water to a hill top from the foot hill. The water was to be used by an armed forces unit located on the top of the hill close to Udaipur in Rajasthan. DRDO gave malhotra 25 percent advance with the order and a letter assuring orders for 10 more wind mills, if the performance of this mill was found to be suitable. A letter of intent was promised to be given when the fabrication plans were approved and a firm order was to be placed after the trials at Udaipur: if these were successful. Malhotra was very pleased with the consideration shown by DRDO to help him settle after leaving the Air force.

Malhotra had planned this switch to the industry from the air force well in advance and had saved some funds. These would suffice as the working capital. He approached Small and medium Industries Development Corporation for a loan to meet the requirement of Capital funds. The Corporation wanted Mr. R.L Malhotra to prepare a Capital Budget Approval Request. This request was to show the rate of return for the project. Malhotra informally found that the corporation would approve the loan if the rate of return was higher than 10 %; preferably 12%.

Malhotra was surprise when he received the approval for the capital budget, within weeks of his application. An Allocation of Rs.12 Lakh was to be released in two phases. Phase I included all requirements for manufacturing the wind mill. Rs 9 Lakhs for this phase was to be released when fabrication plans were approved by DRDO and letter of intent was received. Rs 3 Lakhs for Phase II was to be released when the first wind mill had been accepted by the quality inspectors of the buyer. This phase included capital equipment required for transportation and installation of the wind mill at site.

Mr. R.L. Malhotra was delighted with these developments but was apprehensive about the delay that may be introduced due to the conditions laid down by the corporation. He wondered whether he should search a suitable vendor for getting the first mill fabricated, while proceeding with procurement and installation of capital goods through the funds made available by the corporation. After some initial search, Mr. Malhotra found that it would not be easy to find a suitable party for executing the fabrication task and the vendor was likely to quote a high price for the assignment.

Examine the situation arising out of the approval for the capital budget by the corporation. Comment on the provisions laid by the corporation for the release of the capital funds from the point of view of corporation and Mr. Malhotra. Would you suggest some changes that can guard the interest of the corporation, at the same time helping Mr. Malhotra?