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A RICH HARVEST

R. N. Bhaskar, Business India, Jul 27, 1987

"A Rich Harvest" is the first important article we could lay our hands on – its importance lying in the author's percipient power of financial analysis and prediction. See his comments on overtrading, credit management and reduction of wastage. It is also important for its realistic recapitulation of the beginning of the organisation.

From selling kerosene on a cycle, Bhavarlal Jain has come a long way. He is the largest manufacturer (24000 tonnes valued at Rs 72 crore) of PVC pipes in the country. He now controls a group of companies whose annual turnover collectively stood at Rs 60 crore last year and is poised to cross Rs 100 crore by the turn of this decade. *(This did turn out to be true with turnover of Rs 107 crore in 1989-90)*

In the late fifties, the marginal-farmer-descendants of Kasturchand Jain (*Hiralal and Dalichand*) decided that they would send young Bhavarlal to college, and then for a law degree. In 1963 Bhavarlal decided not to take

up the post of Deputy Collector that the Maharashtra State Public Service commission had selected him for. He opted instead for business. He got an Esso dealership in kerosene and crude oil (used for running pump sets) and received the family's (total) savings of (three generations) Rs 7,000 to buy empty drums. With this he set up Jain & Brothers.

"Those were the days when kerosene and diesel had to be marketed not distributed as is the case today (*rationed*)," says Jain. Going door-to-door, farm-to-farm, Jain managed to do quite well. He then acquired dealerships for petrol and high speed diesel and later even for LPG, "which also needed aggressive marketing in those days," adds Jain.

integrated approach

He soon set up petrol pumps, and came to own a chain of six petrol pumps.

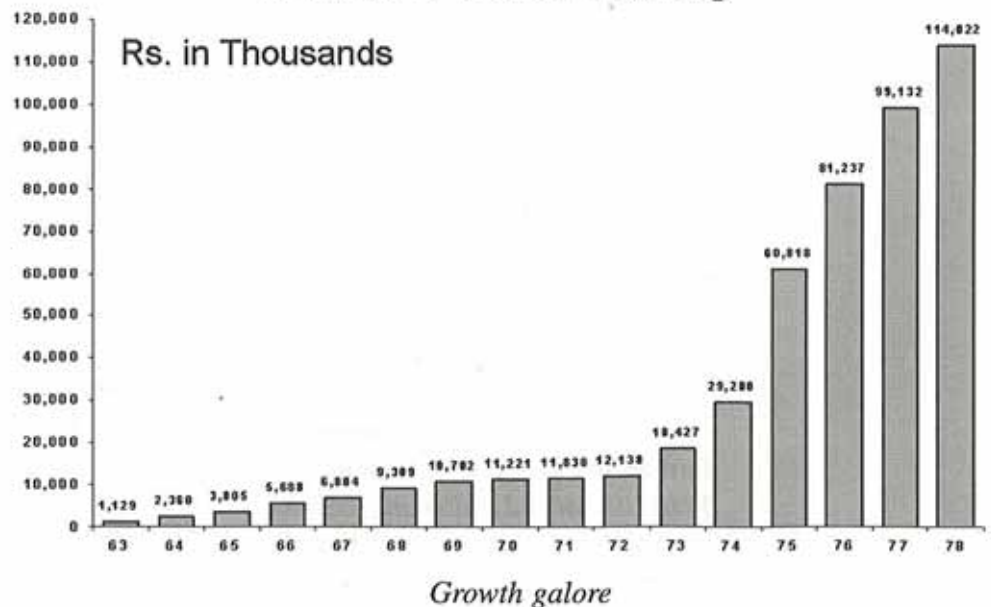
Having acquired agencies for the complete range of oil products, as well as outlets in Jalgaon, Bhusawal and Dhulia, Jain, by the end 1970 acquired a dealership to sell the Rajdoot motorcycles and Escorts tractors. He also set up a service station for repairing and maintaining motorcycles and tractors, and even began selling vehicle spares, tyres, tubes and batteries. Then, more in tune with his farming ancestry/instincts, he began acquiring agencies for various agri-products – farm equipments, insecticides, fertilizers and seeds. Soon Bhavarlal began selling PVC pipes to farmers (PVC pipes were manufactured then *only*) by Wavin, Garware Plastics, Chemplast and Finolex). By 1978, all these lines of activity chalked up

combined sales of over Rs 10 crore (*see graph below*). It was around then that Jain decided to get into manufacturing.

After an abortive attempt to start manufacturing insulation tapes, he began making an enzymatic product called Papain. Willy-nilly, Jain had returned to an agro-based industry. The secretion from the skin of raw, unplucked papayas was tapped, collected, dried and sold for use in baby foods and other applications including meat tenderizer and beer clarifier. Unwilling to cater to the domestic market where, he says, price, not quality, was the determining criterion, Jain began concentrating exclusively on exports. Today, compared with the US \$5 a kg that crude Papain used to fetch him in the early eighties, the Refined Papain his group manufactures fetches him over US \$ 60 a kg. "By

Delete the numbers on Y-axis

Growth of Jains: Trading

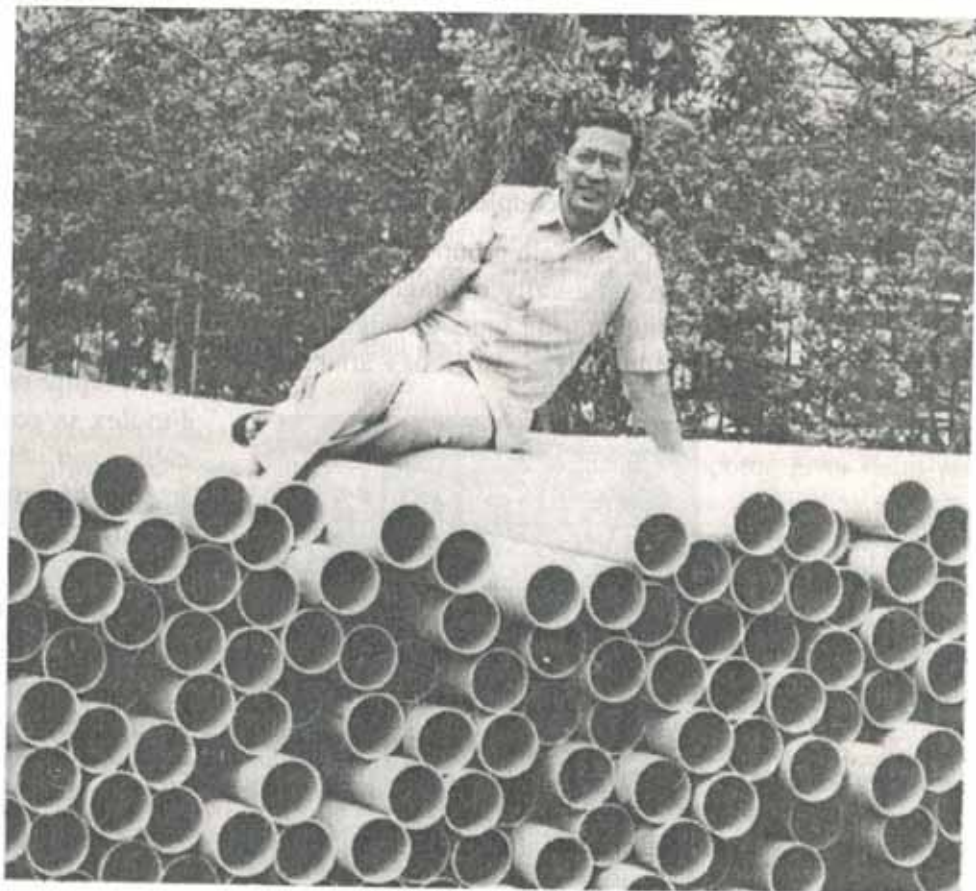


next year, we hope to refine it to meet FDA standards in the US, and this product could fetch us a price of over US \$ 85 a kg," says S.M. Udani, banking and financial controller of the Jain group. *(This price was realised in 1993-94)*

Simultaneously, Jain decided to set up a pipe manufacturing division too. Since the manufacture of PVC pipes of diameters of 110 mm and less was reserved for the small scale sector, Jain decided to set up small units (six in all at Jalgaon), all with a capital *aggregating to* not more than Rs 52 lakh. "So in 1980, I bought a Windsor machine with a 40-tonnes *(per month)* capacity which could

assure me production of PVC pipes worth Rs 50-60 lakh," he explains. "I already had a market worth Rs 30 lakh and was confident of increasing sales to over Rs 50 lakh in a year's time."

The six units in Jalgaon manufacturing PVC pipes took just two and a half years to be set up. Last year Jain began setting up two more units at Sendhwa in Madhya Pradesh, and acquired one more unit in Udaipur *(in Rajasthan)* in October 1984. With these nine pipe manufacturing units, Jain has become the largest manufacturer of such pipes in India, with a 25 per cent market share. *(PVC sales were over*



Patriarch atop PVC pipes

Farmer welfare

7500 tonnes valued at Rs 14 crore)
Last month, he also concluded a deal with the Jindals, who sold him their two PVC pipe making machines for Rs 45 lakh.

In addition to all this, Jain has helped set up Jain Foods at Jalgaon itself, which, though a separate activity by itself, was actually a consequence of making Papain. The papayas from which the Papain was extracted (*by making incisions on the skin*) had no takers even after they had turned ripe. Jain Foods was set up to buy these papaya fruit, which were then peeled, washed, cut into small pieces, boiled, sweetened, and treated with additives and preservatives to make glace fruit or fruit candy used by confectioners and bakers. Today, candy sales figure is in excess of Rs 96 lakh and there are hopes that this figure will more than double in a couple of years' time.

Of the Jain group of companies, Jain personally manages the pipe manufacturing units at Jalgaon and Sendhwa. He also looks after Jain



Value from waste

Plastics and Chemicals that makes Papain, and Emco Transformers Ltd, Bombay, a public limited company in which he bought an 80 per cent stake just last year. The other units, notably the PVC pipe manufacturing facility at Udaipur, Rajasthan (sales Rs 3.8 crore last year, expected to touch Rs 5 crore this year), are being looked after by a cousin. Jain Foods is managed by his brother, while all the other trading activities are run by Jain's uncles and cousins. The group, which accounted for combined sales of Rs 60 crore last year, is expected to make Rs 80 crore this year. Jain himself believes that his group's sales should easily exceed Rs 100 crore by 1989-90, (*Group sales were at Rs 107 crore in 1989-90*) and some observers believe that it could exceed even that.

It is obvious that the Jains have done extremely well for themselves. What has made them succeed? They weren't the first people to make PVC pipes in India. But today, reportedly, Chemplast is planning to close down its PVC pipe manufacturing division, Finolex is concentrating more on cables and not on pipes and Wavin, in spite of being the only PVC pipe manufacturer with a foreign collaboration since the early sixties, is lagging far behind the Jains. Garware Plastics is also stagnating. (*Extrusion equipments, both of Chemplast and Garware Plastics, were purchased by Jains in 1985 and 1986 respectively.*)

According to Jain, he was lucky to have got into pipe manufacture just when the market was booming.

According to others, it was because of the unique combination of experience that the Jains had in the areas of trading, farming and marketing. "It is obvious," says one competitor, "that had they not been selling PVC pipes earlier, they would not have had a market ready to pick up the pipes they had started making". Secondly, it was also fortunate for the Jains that companies like Chemplast were not as interested in selling PVC pipes as much as they were in selling PVC resin. Had it been otherwise, the competition could have easily punched a hole in the Jain enterprise bottom line, particularly as it was not only a late entrant but also dependent on Chemplast and others (*resin manufactures*) for its raw material.

Catering to individual farmers also gave Jain access to markets other than government, agencies, and the single largest customers for such pipes. With farmers going in for more sophisticated irrigation systems, Jain had begun tapping a market that had unlimited potential.

Yet this does not completely explain the phenomenal success achieved by the Jains. For it must be remembered that while being based in Jalgaon might have been advantageous in terms of the market, the town's remoteness and lack of infrastructure were obstacles that Jain had to contend with. Jalgaon is after all in a remote corner of Maharashtra, far from the ports through which imported PVC resin comes. The communication network is bad, and there is no airport within a radius of



Broad vision through a tunnel

150 km. However, both the western and central railway lines run through the town. It has an uninterrupted power supply, and as it is a classified backward area it allows sales tax and excise duty benefits. The last reason is also why several other companies like the Garwares have started manufacturing units around similar backward areas.

"As for communication, we have a hot line facility with Bombay through which we route our entire national and international calls," says Udani. A facsimile facility with New York, USA, where the Jains recently opened another office to monitor exports and imports, gives them yet another communication link with the world of business outside sleepy looking Jalgaon. "Moreover, we belong here," asserts Jain. As far as liaison with government agencies and the like goes, they have men stationed in the major cities.

However, the group's prime asset has been Jain's amazing skill in **managing his finances**. "In a way, I've always overtraded," admits Jain.

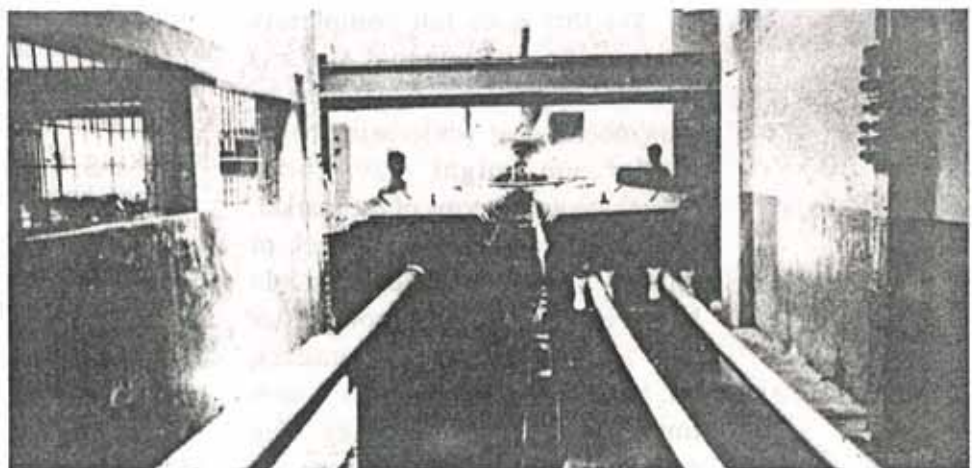
He recounts how even when he started Jain & Brothers, his investment of Rs 7,000 went only in the purchase of empty drums. "The kerosene and the diesel I purchased on credit which I rolled over to the next larger installment of supplies," he recalls. "**I do not consider overtrading as something abhorrent** as long as the funds generated, say around 80 per cent at least, are ploughed back for productive purposes," adds Jain. This is evident even today when one finds that against a net worth of Rs 7.35 crore (inclusive of revaluation reserves of Rs 3.97 crore), loans and liabilities came to around Rs 9 crore last year.

Faith in Jain's competence is borne out by the opinion that machinery suppliers, raw material suppliers and bankers have of him. Cincinnati Milacron, for instance, considers the group as quite **creditworthy**, which is borne out by its recently agreeing to supply to the Jains three machines on deferred payment terms extending to three

years. And that too without insisting on a letter of credit or bank guarantee. Again, Vista Chemicals, USA, which has been procuring PVC resin for the Jains for the last four months, allows the group open credit to the tune of US \$ 800,000 without insisting on bank guarantees. And the banks themselves have together allowed the group to have banking credit to the limit of Rs 21.48 crore.

"In fact, once when we tried to discourage Bhavarlal H. Jain from overtrading a few years ago," confesses one banker, "he simply asked us, **'How else do I grow?'**" He pointed to the penal interest we were paying to the RBI and asked us, 'Aren't you also overstretching yourselves?'"

Another crucial factor that has contributed enormously to the growth of the Jain Empire has been an excellent collection record, another sign of **sound funds management**. In spite of having the government agencies as his single largest customers, it is amazing to discover



Reverse flow of technology

that average credit outstanding in respect of Jain's manufacturing units barely came to 31 days while inventories stood at less than 4 per cent last year (the record for earlier years is equally good). Even so, Jain has systematically reduced his dependence on sales to the government sector from over 80 per cent of total sales of PVC pipes six years ago to just around 56 per cent today.

Yet another important reason behind Jain's successes has been his acknowledged **commitment to quality** production, which has in turn meant keeping abreast of technological developments, in this area. Says Dr B. Vaidyanathan, (*Dr Vaidyanathan – BV as he was known – rose to the position of Director in 1994. His premature demise in December 1995 caused irreparable loss to the organization.*) production manager of Jain Group's PVC manufacturing units at Jalgaon, "Today we are the only PVC pipe manufacturing unit in the country which has computer controlled mixing machines, Cincinnati extruder machines which we've



Man who proved to be Messiah

modified to give us much more than the capacities they were rated for."

Vaidyanathan's statements are borne out by Peter Kirschner, Marketing Manager, Cincinnati Milacron, Austria (a subsidiary of the US engineering company), who marvels not only at the technical innovations carried out at the Jains' units, but also the speed at which expansion has taken place. Kirschner points out how the Jains have achieved such a level of competence that in recent years they even began commissioning Cincinnati extruders without waiting for technical advice from the supplier firm – an achievement few can boast of. A second confirmation of these skills: HMT has reportedly requested the Jains to collaborate technically to manufacture such extruders in India.

Vaidyanathan goes on to explain how he and his team added a preheater for the PVC resin going into the Cincinnati extruders. Then by modifying the screw design and barrel they were able to get a capacity of 410 kg an hour against its rated capacity of 250 kg an hour.

"Taking a cue from the Jains, Cincinnati introduced a new screw and barrel (design) called the Superconical. Nevertheless, the company could still guarantee an output of only 330 kg an hour, as against our 410 kg an hour," adds Dr B. Vaidyanathan. "Then, since downstream units were not capable of taking an output of 410 kg an hour, we introduced a twin extrusion system for the first time in the world,

Vision/
foresight
integration
—>

and have now gone on to triple extrusion too for small diameter pipes of 20-40 mm. Soon we hope to have quadruple extrusion systems too.”

Vaidyanathan also proudly points to the low wastage at the Jain units – just around 5 per cent against the norm of 6 per cent in most developed countries. “For us the need to trim costs is greater, as PVC is much more expensive in India,” he explains. “Even this waste gets recycled, of which 4.92 per cent is recovered, giving us an ultimate loss of only around 0.08 per cent against the international norm of 1 per cent,” he adds.

The Jains have also begun introducing new types of pipes. For instance, they plan to shortly introduce double walled pipes, which are corrugated on the outside but smooth inside, thus saving almost 20 per cent on raw material yet improving on the inherent strength of the pipe. (*Indeed, we did introduce these, collaborating with Rib-Loc Australia. Though cost effective, we had very limited success due to customer resistance to the pipe's light weight. Since, discontinued.*) Such **innovations, coupled with rigorous quality control** have given the Jains a reputation in the market that could well be the envy of almost any pipe manufacturer.

Companies associated with the Jain group		(Rs lakh)
Name of unit	Main activity	Turnover
Accurate Pipes & Plastics (P) Ltd, Udaipur, Rajasthan	PVC pipes & fittings	380
Jain Foods, Jalgaon	Fruit candy	96
Jain Metal & Material Supply Corporation, Jalgaon	Marketing building materials	11
Jain Brothers, Jalgaon	Mktg. agro inputs & petroleum products	390
Jain Bros Auto Agencies, Jalgaon	Mktg. & servicing tractors & two wheelers	140
Jain Warehousing Corporation, Jalgaon	Warehousing	15
Shirish & Co, Jalgaon	LP gas agency	33
Dhulia Gas Agency, Dhulia	LP gas agency	78
Malegaon Gas Co, Malegaon	LP gas agency	18
Bhusawal Gas Agency, Bhusawal	LP gas agency	115
Ajantha Traders, Pahur	Mktg petroleum products	102
	Total	1,378

The Jain group's financial profile (1985-86) (Rs lakh)				
	PVC PIPES	JPCL	EMCO	Total
Sales	4,348.31	76.42	223.30	4,648.03
Other income	1.87	59.10	9.95	70.92
Gross sales	4,350.18	135.52	233.25	4,718.95
Gross profit	204.41	34.73	16.31	255.45
Depreciation	32.35	14.99	6.87	54.21
Tax	33.97	5.04	—	39.01
Net profit	138.09	14.70	9.44	162.23
Share capital	152.55	24.50	48.52	225.57
Investment allowance reserves	64.17	14.82	—	78.99
Revaluation reserves	169.15	227.54	189.56	586.24
Other reserves and surplus	58.83	23.54	55.70	138.07
Net worth	444.69	290.40	293.78	1,028.87
Loans and liabilities	750.73	168.75	100.38	1,019.86
Net block	390.41	411.09	260.90	1,062.40
Total assets	1,228.86	464.92	398.04	2,091.82

Not content with their undisputed supremacy in the manufacture of PVC pipes, the Jains now plan to diversify into three areas. The first, relating to manufacture of PVC window profiles, foam tiles and roof tiles, is already on the anvil and is expected to go on stream as demand for such products develops. *(Found unviable. Hence we discontinued in 1997.)*

The second area of diversification is in drip irrigation systems for which a new company, Jain Irrigation Systems Ltd has been formed. The company is in technical collaboration with James Hardie, USA, one of the largest irrigation equipment manufacturers in the world (group annual turnover in the region of Rs 1,500 crore) through their European subsidiary based in Italy. Unlike earlier companies in the

field, (which included big names like Coromandel Indag, Voltas, Kirloskar and Jyoti) the Jains will offer a total irrigation system.

“This will include testing the soil, crop pattern, weather patterns and land geography before we devise a system for the farmer. In addition we will supply all the 20 odd parts needed, and not leave it to the farmer to procure odds and ends from others. In addition we also intend offering the farmer a guaranteed service to suit his changing needs for at least 10 years,” explains Mr R. B. Jain, Bhavarlal's cousin and director of the company.

“During the last seven years only 4,000 acres have been brought under drip irrigation by all the companies put together. We intend getting at least 10,000 acres under our system in the first year itself. We have

already covered around 3,000 acres under this system. Farmers realize the benefits of such system whereby water consumption gets reduced by at least 50 per cent and agricultural output increases by around 25 to 40 per cent, and so the potential for marketing such a system is virtually unlimited," says Jain.

To ensure that the drip irrigation system finds easy acceptability, the company began installing such systems for large and influential farmers. Clients include Sharad Pawar and other sugar barons in Maharashtra. The strategy is obviously paying off, as farmers watching the results of these systems have begun showering the Jains with enquiries.

To partly finance this project, expected to cost around Rs 7 crore, the Jains plan going public (the first unit in the group to do so) and raise funds around Rs 2 crore from the capital markets. *(Maiden public issue completed on 01.12.1988. Please refer next article – Jain Irrigation : Fertile Plans, pages.....to.....)*

The third area of diversification, and possibly the most promising, is the Jains' plan to set up a project worth Rs 100 crore for producing 50,000 tonnes per annum, tpa, of PVC resin. "Today, we consume 28,000 tpa of PVC resin and have become the largest processors of this resin in the country," says Jain. So it was natural to go in for backward integration. However, the application has been pending with the government for two years now. Now

that the government of Uttar Pradesh has decided to sponsor it (earlier it was Maharashtra), Jain reckons his chances to be better. "The economics are in my favour," he says. "Uttar Pradesh needs industry and I need 28,000 tonnes of PVC resin a year from now onwards. As for the rest I am even willing to guarantee export if domestic sales are not possible." *(This PVC resin project could not be pursued for want of license from Government of India.)*

Once this project gets cleared, the Jains could easily rank foremost among the new industrial groups in India. Jain is now concentrating on developing a second generation of management. The group has already been apportioned between his sons, cousins and uncles. "I do not like to think of this bifurcation of responsibilities as a family / business division," emphasizes Jain. "I'd rather think of it as planning for a transition, a smooth change of men in control. I've never believed in luck or accidents – only in planning."