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GLOBAL

THE MAGAZINE ON INTERNATIONAL BUSINESS

B.H. Jain
Group Chairman

■ JAIN GROUP

From the grassroots

This Rs 210-crore group is using exports to quietly realise its dream of a hi-tech agri-empire



Fresh perspective

Michael Porter made headlines last month by assessing the competitiveness of Indian industry. But a common reaction, especially among those who had read his celebrated tome, *The Competitive Advantage of Nations*, was: "What's new? Do we need Porter to tell us that productivity in India is low?"

Perhaps. I had, many years ago, asked a well-known name in entirely another field, exactly the same question: "What's new in what you say?" His irritated answer: "Hardly anything under the sun is new. What you *can* do is give a new perspective to an old problem."

That's generally true in most areas in management. You don't need a seminar to tell you that your company should be customer-focused. Or that flab in an organisation drains it of both finances and energy. Or that product quality is desirable. And yet, there is a multi-billion conferencing industry out there, much of it occupied with discussing the obvious.

Much of the seminar circus is a waste of time. However, a man like Porter, through the sheer weight of his name, *can* shake an audience out of its ennui, and activate debate. And he has. Witness recent editorials on Indian productivity as also about the incorrectness of allowing Coca-Cola to buy out Parle to create a monopoly and suppress competition. Conversely, it was reassuring that the issues he raised were the very ones that many Indian companies are seeking to address.

Besides, to be fair to Porter and his team, they did make some interesting points. One of the most striking: Indian industry is squandering its advantage of inexpensive human and natural resources. Another: the huge, low-quality demand at home is getting in the way of exports - instead of aiding it by permitting economies of scale.

Interestingly, Porter was assisted by two US-based Indians. One was Pankaj Ghemawat who, at 32, became the youngest ever professor in the history of Harvard Business School (*see Interview*).

Quiet performer

To readers, the choice of B.H. Jain on the cover may seem startling. He isn't terribly well known; neither is his flagship company, Jain Irrigation Systems Ltd (JISL), based as it is in the hinterland of Maharashtra. Starting from scratch, Jain has used his understanding of agriculture (and later plastics) to carve out a respectable business. This year, half of JISL's turnover will come from exports, much of it to quality-demanding west Europe. And now, he wants to use value-added exports as a cornerstone to create a fascinating hi-tech network of agro-related businesses. B.H. Jain: it is a name that promises to appear on the business pages with growing frequency.

Suresh

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COVER ■ A HI-TECH FARMER: After making impressive **28** gains in micro-irrigation systems, and plastic pipes and sheets, the Rs 210-crore Jain group of industries is all set to become a one-stop shop for hi-tech agro-inputs. Another big leap for chairman B.H. Jain, who has built an empire from scratch.

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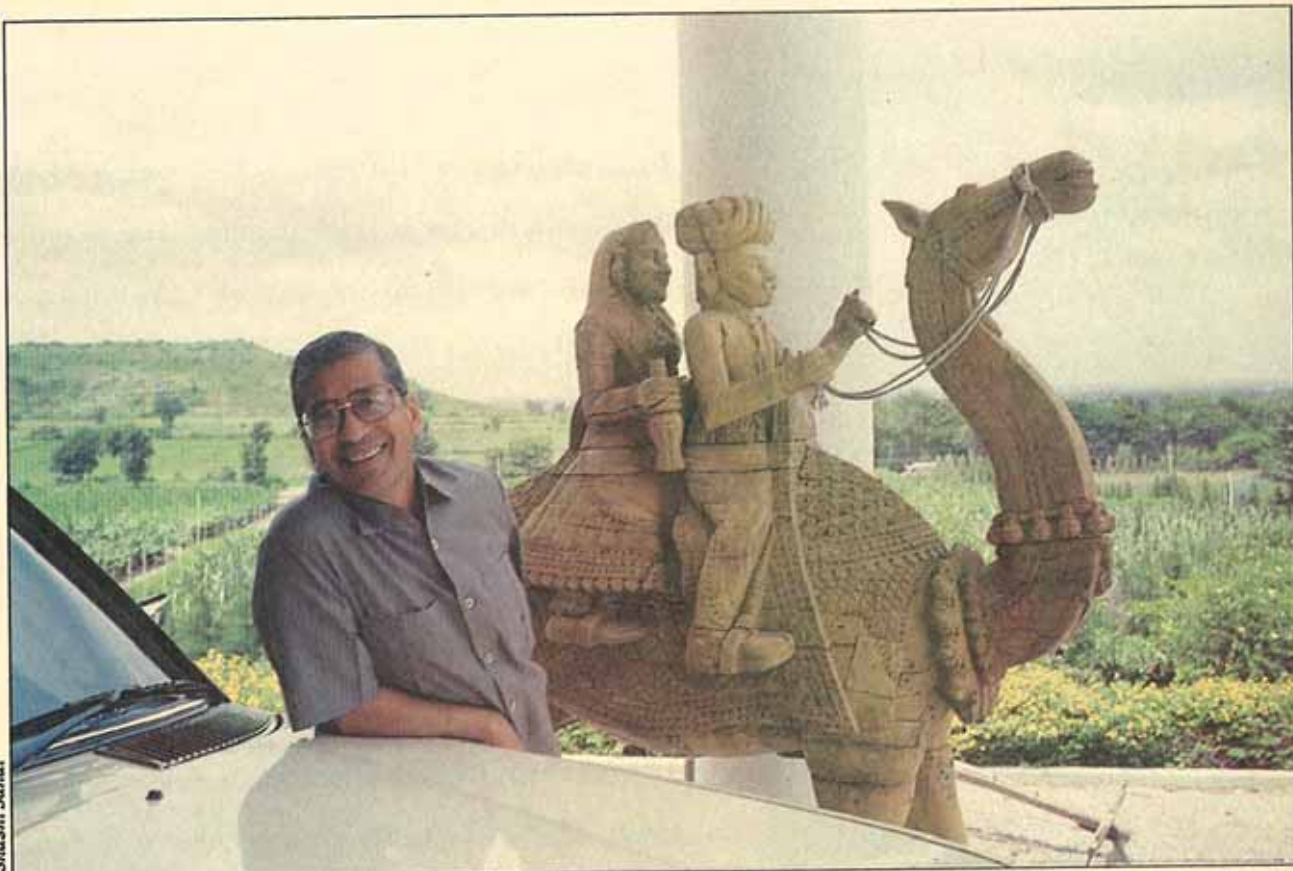
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■ INTERVIEW

IN A DILEMMA: Harvard's Pankaj Ghemawat says that Indian products are too high-cost and too high-priced to create an explosion at home. **8**

Cover photograph by Shashi Sahai



Shashi Sohar

Jain, with a reminder of his heritage: success built on an understanding of rural India

From the grassroots

A boy from the village, he made a multicore success from scratch. Now, he is on the verge of building an intricate network of businesses around hi-tech agriculture, plastics and exports. A first-time indepth report by Udayan Ray.

Here is a modern fairytale about a winning investment. A young Marwari belonging to a trader-farmer family gave up a cushy job he had secured as a gazetted officer. Instead, he invested Rs 7,000 and a

lifetime in business. Today, 32 years later, it is easy to agree that 25-year-old Bhavarlal Hiralal Jain had made the right - if evidently risky - decision. Jain is today chairman of the Rs 210-crore Jain Group of Industries headquartered in Jalgaon, Maharashtra.

The performance indicators of the group's flagship company, Jain Irrigation Systems Ltd (JISL), give a pretty good idea of just how rapidly this low-key businessman from this little-known town, 250 km northeast of Bombay is getting ahead. Turnover leapfrogged

from Rs 35.5 crore in 1991-92 to Rs 65.0 crore in 1992-93 to Rs 92.7 crore last year. This year, it should be up to about Rs 150 crore.

Much of that impressive picture has been painted by exports. They have doubled consistently each year since 1991-92: from Rs 10.0 crore to Rs 21.6 crore to Rs 41.2 crore last year. In 1993-94, besides being the top Indian exporter of PVC (polyvinyl chloride) sheets, JISL was also the country's second largest exporter of PVC pipes. That trend of doubling exports will more or less hold in 1994-95 if the target of Rs 75 crore is met. In other words, half of JISL's turnover this year will come from exports.

What makes Jain's story special are reasons beyond just raw growth. He is currently one of the best examples of Indian entrepreneurship. Like other entrepreneurs, he has faced innumerable hurdles: a paltry seed capital, a rural background, virtually no ex-

posure to business matters, location of industry in a backward region. But through sheer determination and ingenuity, he has surmounted all obstacles. There is more. Most entrepreneurs seem to have only one big idea within them and they are rarely able to build on their initial success. Not so Jain. Constantly hunting less explored areas that are synergistic with agriculture, plastics and exports, he is currently in the process of weaving an intricate structure of businesses.

It wasn't always so good. Born in a lower-middle class family in Wakod, a village 40 km from the district headquarters of Jalgaon, Jain had to struggle to complete his education. It was his uncle's meagre savings that allowed him to graduate in commerce and subsequently law in Bombay. The turning point was Jain's decision not to join the provincial services after being selected. Instead, in 1962, he chose to take up the local dealership for the



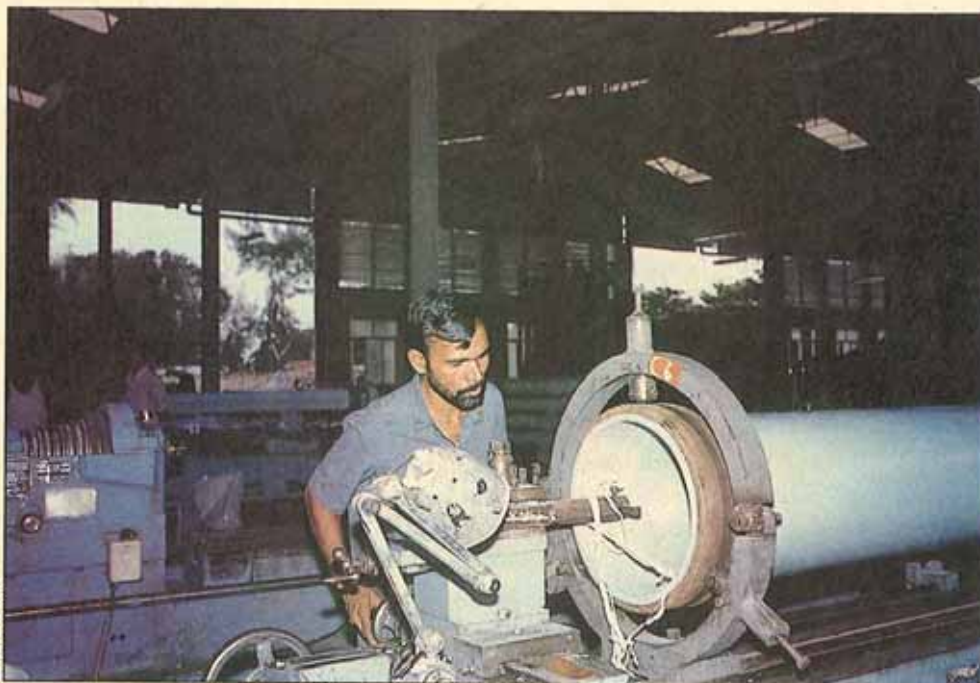
petroleum company, Esso.

Jain's business instinct was soon evident. Instead of selling kerosene and diesel in the heart of Jalgaon, as was the practice, he adopted a door-to-door approach. It worked. Later, he was joined by family members including his brothers, cousins and father (who had retired by then).

Says Jain, "They submerged their identities so that I could fulfil my ambition to set up businesses." Being the first graduate in the clan, Jain was the natural leader. Recalling the early excitement, he says: "All of us were charged with the feeling that we were destined to do something special."

Between 1962 and 1978, Jain took up dealerships for a variety of products including fertilisers, farm machinery and tractors, seeds, pesticides and PVC pipes. Among the 59 principals he represented were the likes of Ciba-Giegy, Escorts and Ashok Leyland and National Seeds Corporation. He was glad for this association for more than just immediate profit. He learnt his basic lessons in modern business during his interaction with executives of these companies, especially Esso. As he admits, "They taught me

Exports have helped Jain Irrigation grow by 161% in just two years.



The PVC pipe unit: a happy accident

Shashi Sahai

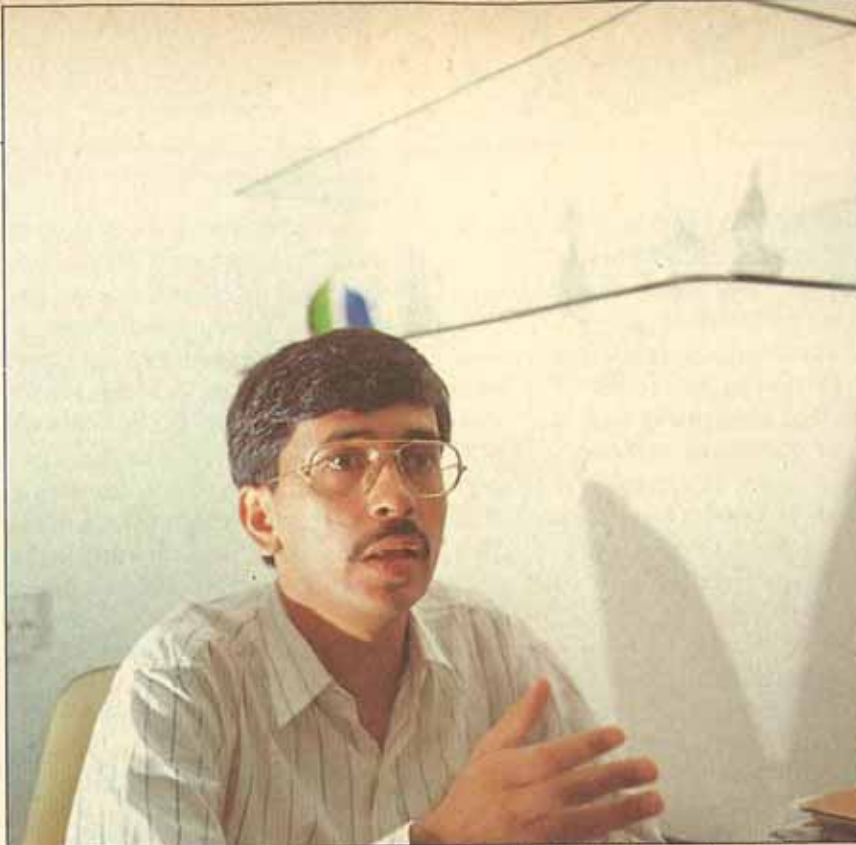
about aggressive rural marketing. This background became my asset for the future."

Jain made his first foray into manufacturing in 1978, when he took over a sick banana powder unit and used it to produce papain, an enzyme derived from papaya. Papain is used extensively in breweries, meat, chewing gum and toothpaste industries. The entire production (worth Rs 2.6 crore last year) is still exported.

Next step: 1980, when Jain got into making PVC pipes, used to supply water in farms. This adventure came about almost accidentally when one of Jain's suppliers failed to make deliveries. Instead of throwing up his hands, he bought an old machine from Bangalore and had it repaired. There was no looking back. Within two years, he added several more machines to become the largest producer of PVC pipes in the country.

To take advantage of government concessions for small scale units, Jain set up several such, all on the same premises. Though separate legal entities, they had many common facilities, making for cost efficiency and operational flexibility. He went on to set up a strong dealer network in rural areas, permitting aggressive marketing. In 1992-93, to avail of excise benefits, he amalgamated the individual pipe companies into Jain Plastics and Chemicals Ltd (JPCL).

In 1985, Jain partitioned his business amongst family members, so that each branch had clearly demarcated areas. His explanation, "This gave them the opportunity to grow. At the same time, I could devote more time to train my sons." All this while, Jain had been training his nephews. His concern: to ensure that the second generation didn't squander the achievements of the first.



Shashi Sahai

Anil Jain: towards becoming a "one-stop shop for hi-tech agro-inputs"

At about the same time, Jain realised that he needed to move into the next stage of value-addition. PVC pipes were high-volume low-margin products. As numerous small manufacturers began to sprout all over, Jain found it hard to compete with them on price since the cost of transporting pipes is high. As his son, Anil Jain, 30, now the group's managing director, remembers,

"In 1985-86, we thought that we had reached a plateau in PVC pipes. So, we decided to move from marketing a commodity product to a value-added one."

That is how the journey into micro irrigation systems (MIS) began. MIS is a network of pipes that carries

water and nutrients to feed each plant the requisite quantity at its roots. It is generally used to grow cash crops besides finding use in landscaping and agro-forestry. In 1988, JISL was set up with the promoters (the Jains and their associates) contributing half the equity and public the rest.

The quest for value addition led Jain from pipes to micro irrigation systems.

The concept of micro-irrigation wasn't new to India. It had been around since 1972, and several companies - including Voltas - were already in. But the idea had languished. When JISL approached an Israeli company, Netafim, it refused to share the knowhow. So, Jain settled for James Hardie Irrigation of Italy.

Jain also had a torrid time before finally convincing government officials about the need to import micro irrigation technology. That done, there was the mindset of the Indian farmer to deal with. The problem, in Anil's words: "Farmers had been taught that more water meant more yield. And here I was telling them to use only 30% of their current consumption."

Rural purchasing power was another hurdle. Though government agencies subsidised MIS purchase to about a third, farmers nevertheless found the cost prohibitive, given their small holdings. The procedure to disburse the subsidy was complex too, leading to innumerable malpractices. Says Jain: "If subsidies solve two problems, they create three more."

JISL's approach to popularising the MIS concept was innovative. Instead of

selling it as a product, it was marketed as a package, one that included, among other things, a survey of the terrain, installation (by engineers), after-sales service, agronomical support and field research. Says Anil: "In India, most agricultural dealers were used to selling components but we were selling a service."

The company's growth was rapid and today the company has a 65% share of the national market. But Jain was dissatisfied, believing that rural purchasing power in India was far from reaching the point where investment-intensive products like his would be bought in large numbers.

JISL therefore began to explore overseas markets for MIS, recording some success for the first time in 1988-89, especially in West Asia and South East Asia. This small, initial triumph was to play a crucial role in the group's approach because it was a first taste of just how large the potential outside India was.

His familiarity with plastics - thanks to PVC pipes - led Jain, in 1991, to

establish a 100% export oriented unit to make PVC sheets under the JISL fold. These sheets are popular as wood substitutes and are being increasingly used all over the world, for interior decoration, signages and green houses. Within just two years of starting production, the company was making a range of PVC sheets - free foam, solid, integral and poly carbonate.

JISL now plans to produce other kinds as well: polyethylene and polysterene sheets, among them. If these plans materialise, JISL will become one of the most diversified plastic sheets manufacturers in the world.

As with ventures before it, the road to PVC sheet production was rough: Jain couldn't persuade any major foreign company to part with the technology. So, JISL developed it by itself. That story had a happy ending: since the company didn't have a foreign collabo-

rator, it was free to export the products to any country it chose.

Sales, under the brand name EXCEL, took off especially in Europe and plastic sheets today account for 60% of JISL's exports. Today, the company has dealers and distributors in Europe

(where two thirds of sheet exports are consumed), the US and South East Asia plus representatives and offices in Austria, Belgium, Hong Kong, Singapore, Israel and the US.

Considering how critical a role exports has played in JISL's fortunes, it is not at all

surprising that the company accords it top priority (after all, between 1991-92 and 1993-94, though domestic sales grew by 102%, it was exports that permitted the company to grow by a considerably higher 161.1%).

JISL is already providing warehousing facilities to its distributors abroad. In Europe, JISL is also exploring the possibility of tying up with General Electric Structured Products - part of General Electric - for technology and product distribution. Additionally, it is also trying to acquire a distribution outlet in the continent.

JISL has been marketing its products through wholesalers. The advantage of this arrangement is that the company has to deal with fewer people to market its products abroad. Says Anil: "This way, increasing export capacity doesn't create any strain on the management."

Now, the group is readying to enter its next, ambitious phase of growth. The picture that Jain has in mind is simply this: that his group produce a variety of the inputs - ranging from the existing MIS to seeds to liquid fertilisers to agro-consultancy to tissue culture (see chart) - that go into farming. As Anil puts it: "We are moving away from being a micro irrigation supplier

Two-thirds of JISL's branded plastic sheets exports find their way to Europe.



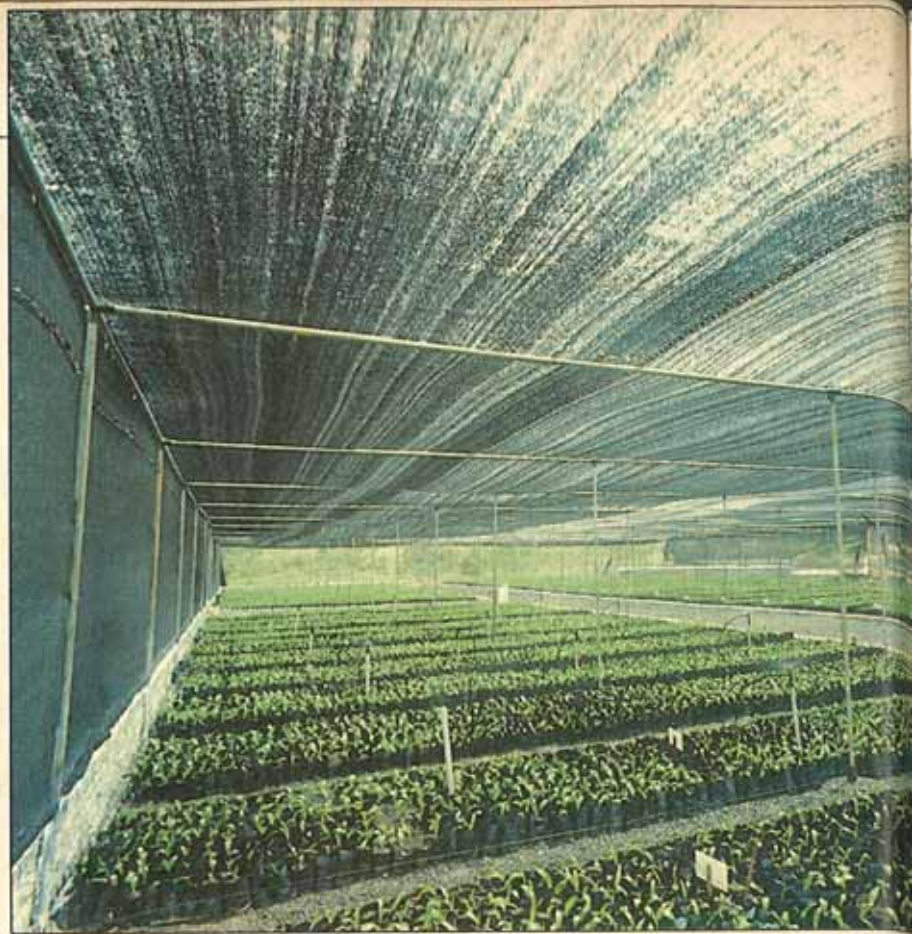
Components of micro irrigation system: tough concept to sell

to a one-stop-shop of hi-tech agro-equipment." Equally, Jain wants the group to buy farm produce, and sell it, either fresh or processed, at home and abroad. And much of this plan rests on the premise of high value-added exports.

The number of projects on hand is mind-boggling. In food processing - where many of these lie - the new units will mainly convert fruits and vegetables into purees, pulps and powders. A canning unit will produce shelf-stable products for both the Indian and overseas markets.

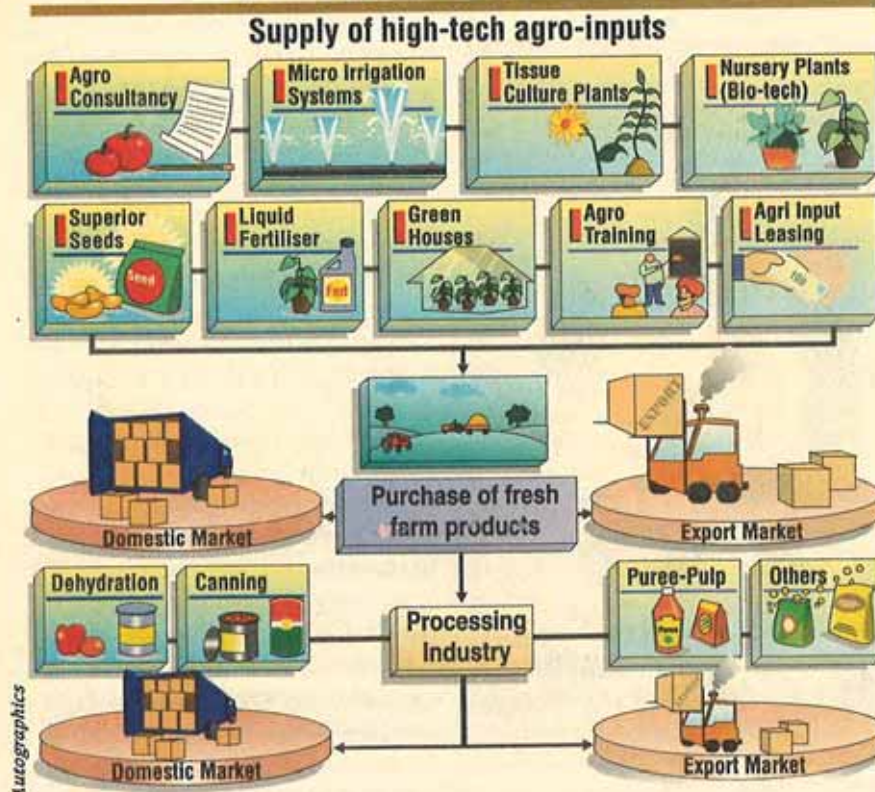
To negotiate this virtual stream of new projects, Jain is relying primarily on foreign partnerships: "We always try to enter into joint ventures: this helps us cut the time barrier."

Several large companies have entered the agro-business in great excitement in recent years. It is practical-



THE ONE-STOP SHOP

Jain's integrated approach for global Indian agriculture



ly fashion. What distinguishes Jain's effort from theirs?

The answer: "They have been getting into a particular areas of agriculture, such as floriculture. But we are talking about supplying a total package of hi-tech agricultural inputs, buying agricultural produce, adding value before exporting it. I don't know of any other organisation which has taken such an integrated approach." In fact, he expects the recent surge in agro-exports to help his business as it should, logically, bring the big players to his doorstep.

A new plastics ventures will make large-diameter spirally wound plastic pipes, plastic rods and tubes, polyethylene pipes, polybutylene pipes and fittings, polystyrene foam sheets and sub-soil tubing. While some of the products are aimed at the Indian market, the rest are for international ones.

Within hi-tech agro inputs, one is a JV with the Finnish company, Kemira Agro, to make liquid fertilisers which can be administered by MIS. JISL has also entered into JVs with nine Israeli firms in a variety of agriculture-related



Shashi Sahai

From green houses...

areas (see box). But why Israel? Responds Anil: "It is one of the most agriculturally advanced countries in the world. Their agronomical knowhow is simply phenomenal." He finds Israeli technology far more relevant than that from elsewhere because the climatic conditions in the two countries are fairly similar.

Jain also plans to enter what he describes as "support services". One, a bank (the application is still pending with the Reserve Bank of India) to finance agri-exports - he expects a boom here - on the lines of Credit Agricole of France. He doesn't expect to be alone for long but "by the time other banks get ready, I will have already developed the expertise."

And, like consumer durables manufacturers which have set up finance companies to fund the purchase of their brands, Jain proposes to do likewise for products like the solar water heater.

Another addition to the stable is the recently floated Jain Securities International Ltd. This company will enter share broking - but with a difference. It will tap primarily rural savings for investment in capital markets. H.R. Handa, 65, a senior group director, says that

the proposed bank and Jain Securities will both finance agro-exports, with the initial thrust in Maharashtra.

One project that doesn't quite fit into the Jains' neat diagram for the future is an export-oriented granite manufacturing unit in Khammam, Andhra

Pradesh, which they have recently taken over. Jain candidly puts this foray down to his obsession with the stone.

The business part of his argument is this: today, most of the granite exports are in the form of rough blocks. While a cubic metre in rough blocks sells between \$850-1500 (Rs 26,350-46,500), in the finished form, the realisation could be as high as \$8,000 (Rs 2.5 lakh).

Where will the money for so many ventures come from? Early this year, JISL raised \$30 million (Rs 93 crore) via a Euro-issue to finance the hi-tech agro-inputs units. JPCL will go in for a public issue late this year to fund the food processing ventures, says Handa, and expects a substantial premium on its public offering.

Says he: "The Euro-issue wasn't merely a source of cheap funds. It was

also an opportunity to project the Jains' image in their export markets." Reserves, which have grown sharply over the past year to an impressive Rs 135.7 crore, should contribute the rest.

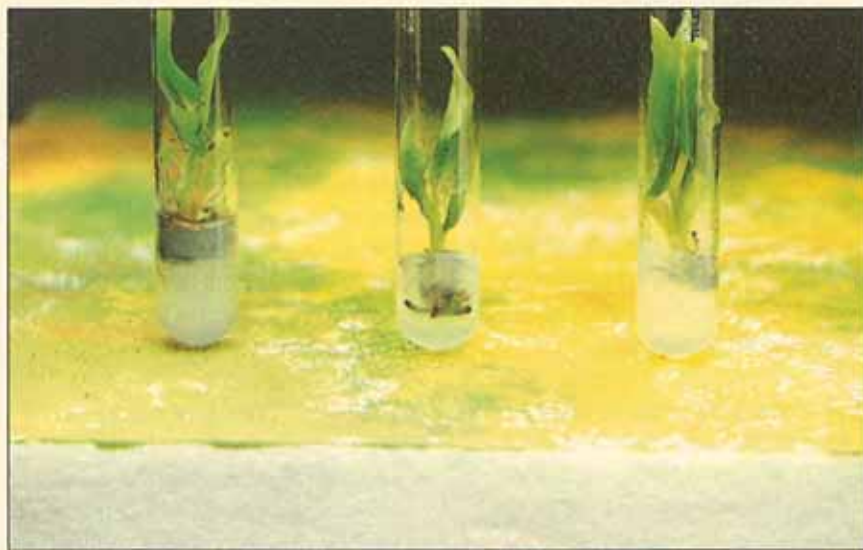
Although having units in Jalgaon has its merits - corporate tax holiday, for instance -

The danger in future lies in the group spreading itself too thin, losing focus.

Jain could have easily chosen the high city life for himself. But he doesn't want to lose his roots, which is why, as a reminder, he keeps a wooden sculpture of a camel and a cart in the porch at home. The camel is a reminder of his Rajasthani origin; the cart symbolises agriculture that has brought the family wealth.

Although having his headquarters in Bombay would have been far more convenient, Jain has resisted the temptation so far because "there is a complete loss of identity" there.

What role does Jain see for himself in the days to come? The patriarch is clear: he plans to gradually withdraw from operational matters within the



...to tissue culture, the Jains are really spreading their wings

<p style="text-align: center;">The Israeli connection Jain's collaborations with Israeli firms</p>		
Company	Collaborator	Nature of collaboration
JISL	Rahan Meristem	JV with the world leaders in banana tissue culture technology to produce and export tissue culture banana, papaya, ornamental plants and cut-flowers.
JISL	Azrom Metal Industries	Fabrication and installation of green houses under licence. Besides training engineers, technicians and agronomists, Azrom will help JISL in its marketing initially.
JISL	Elder Electronics	An agreement to make sophisticated control systems which will monitor climate and irrigation in a green house.
JISL	Hishtil Dagan Nursery	Technical collaboration to import speedling nurseries and adapt them to India. (Speedling nurseries are mechanised nurseries with automated irrigation and pest control.)
JISL	Hazera	To make and distribute high quality vegetable and field crop seeds. Apart from selling in the home market, the produce will also feed the speedling nursery project.
JISL	Ancor	Technical partnership to make solar water heaters. The product will be targeted at the institutional market (chemical and textile factories, hotels and hospitals), would initially be exported and later sold in India.
JISL	Yamit Filters	Collaboration to make filtration systems used in micro irrigation systems; for domestic and international markets.
JISL	Hovev Agriculture	A case of reverse investment: JISL will put money in this company to produce dried fruits and vegetables in Israel which will be marketed in the US and Europe.
JF	CINDACO	An agreement with the Centre for International Agricultural Development Corporation (CINDACO), Ministry of Agriculture, to train Indian farmers in advanced agricultural techniques.
<small>JISL: Jain Irrigation Systems Ltd JF: Jain Foundation</small>		

next three years, leaving the second generation in charge: "My job hereafter would be twofold: first, to maintain the organisational culture developed over 32 years, and adapt it for the future. Second, to instil a sense of quality consciousness."

The second generation too intends to gradually leave the operations in the hands of professionals. Says Anil: "The top promoters will spend increasingly more time on new ideas and projects. Hands-on management by the directors will remain only in certain critical areas and these areas would change from time to time."

That makes eminent sense because success in the past needn't necessarily guarantee it in the future, which is infinitely more complex. Even assuming that Jain has tied up the best collaborations possible, operating such a slew of new-area projects profitably will require management skills of extraordinary depth.

Second, there is the danger of the Group spreading itself too thin (in fact, some of the projects at proposal stage are in areas as disparate as real estate development, information technology and airlines).

Within agri-related areas, synergy seems to exist. However, it seems too complacent an assumption that the buyer of one product from their one-stop shop will necessarily pick up another product as well. Larger, specialist, tightly-focused companies in each of these fields could prove troublesome to the group in the long run since they might be able to achieve greater economies of scale.

Cheap imports could cause damage, too. The danger in this mega dream is one of losing focus and failing to concentrate adequately on each of the new ventures.

However, if Jain does succeed in his 'integrated' gambit, he will rank among a handful of first-generation Indian entrepreneurs to have built a towering edifice by heaping one big idea on another.