Apology of no avail

The Jain group admits its folly in diversifying into unrelated areas. But can an apology alone save it?

t may be the first time in the history of corporate India that the chairman of a company has advertised his follies and misjudgments. On 26 November, through a half-page advertisement in The Economic Times, B.H. Jain, chairman of the Jain group apologised to his investors. The advertisement read: "I am sad that, for the first time since our inception, we have fared badly. We ventured into unknown areas like finance, information technology and granite at the cost of our core business... I feel it is my duty to account for, to own up, to admit my misjudgments, to apologise." Jain's apology follows the announcement of massive losses by the two listed companies in the group — Jain Irrigation Systems Ltd (JISL) and Jain Plastics.

The story of the Rs400-crore Jain group is a typical case of a small but very successful company's ambitions gone haywire. JISL, the group's flag-

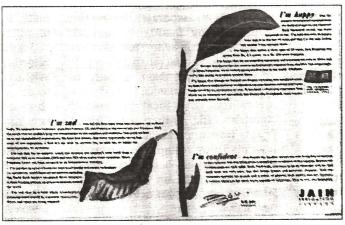
ship with its roots in rural Maharashtra, made history in 1994 when it raised \$30 million through a global depository receipts (GDR) issue. With its niche in the business of micro-irrigation systems, the company grew phenomenally from a Rs2.5-crore turnover in 1988 to become a Rs250-crore integrated agribusiness company by the year ended March 1997.

Encouraged by its immense success in the

business of micro-irrigation systems, the company ventured into nearly a dozen new businesses. Says Anil B. Jain, managing director, "We wanted to be a global corporation. Thus we diversified into all possible areas where we saw an opportunity." Most of the diversifications, such as granite, computer software and financial services, weren't even remotely related to the group's core business of irrigation systems.



We admit our misjudgements, say Jains



The misjudgment of the management has splashed red all over its balance sheet and cast a shadow on the financial future of the group. For the year ended 30 June (15 months), JISL reported a net loss of Rs13.37 crore on a turnover of Rs282 crore. However, the company had not provided for Rs14.7 crore in depreciation. Jain Plastics reported a net loss of Rs13.42 crore. Here too, the company had not made any provision for depreciation

(Rs2.4 crore). The overambitious ventures of the Jains have cost the group shareholders dear. JISL scrip, which peaked at Rs290 in September 1994, is currently quoted at Rs12.

The huge losses are mainly on account of interest charges. While JISL's interest outflow was Rs56 crore, Jain Plastics' payout amounted to Rs17 crore. The total borrowings of the group are estimated at Rs400 crore, with an average annual interest outflow of Rs75 crore. "If the group does not manage to get out of loss-making businesses and retire nearly Rs100 crore high-cost debt, it will be just matter of time it goes down under the heavy debt burden," says an analyst with a brokerage firm in Mumbai.

The Jains too have realised the urgency to restructure their businesses. "The writing on the wall is clear for us. From now on we want to concentrate just on our core businesses — agriculture and plastics," says Anil Jain. Apart from consolidation of its irrigation, food processing, agriculture and plastics business, the group intends to sell off its investments in telecommunications and computer hardware

company Atlaz Technology, the multimedia venture Pixel Point, the financial services arm Jain Securities, and Gautam Granites.

The Jains hope to realise Rs80 crore by disposing off their investments in unrelated areas. Given the general recessionary state of the market, the group won't find it easy to quit the lossmaking businesses quickly — it had invested Rs15 crore in the granite business alone. Jain Securi-

ties, the financial services arm of the group has virtually no liquid assets worth anything. Nearly Rs10 crore is stuck in various bought-out deals. By the time these assets become liquid enough, the interest costs will have eaten up their net worth. Sitting on a pile of illiquid assets and paying high rates of interest on borrowings, it will be a long time before the group turns around.

• BABU DAS AUGUSTINE