

Jain Irrigation Systems Ltd.

Jains on rekindling efforts



Refocusing on core businesses....

Lower capacity utilisation, higher interest burden and non-availability of working capital in time collectively dampened the overall performance of the company in the year 1996-97

Now the Jains of Jalgaon have identified what is good and bad in their businesses. They have learned the hard way the fact that a strong hold on what is called core business is a core of strength and future stability. The core businesses of JISL - micro drip irrigation system and plastic pipes, have enormous growth potential. Yet, two years ago, the company tried out diversification exercises into totally unrelated areas of granite, finance and information technology. It was a mistake, the Jains agree. But for what is called "judgmental efforts" Jain Irrigation Systems Ltd (JISL) had to pay a heavy price.

Lower capacity utilisation, higher interest burden and non-availability of working capital in

"We have decided to refocus only on agriculture and plastic businesses." Mr. Anil

time collectively dampened the overall performance of the company in the year 1996-97. The interest burden of the merged entity for the year 1996-97 was almost 2.5 times higher at Rs 60.27 crores on annualised basis (Rs 75.34 crores for 15 months) as against the interest outgo in 1995-96 that was as

working capital for which we have already made arrangements," he says.

This is expected to help the company enhance the capacity utilisation in the current financial year, which has just begun. In view of this, the company has already started financial restructuring for better utilisation of funds. "As a part of the restructuring strategy, the company has decided to divest the other non-core businesses which will ensure a steady flow of liquidity," says Mr B H Jain, Chairman of the company.

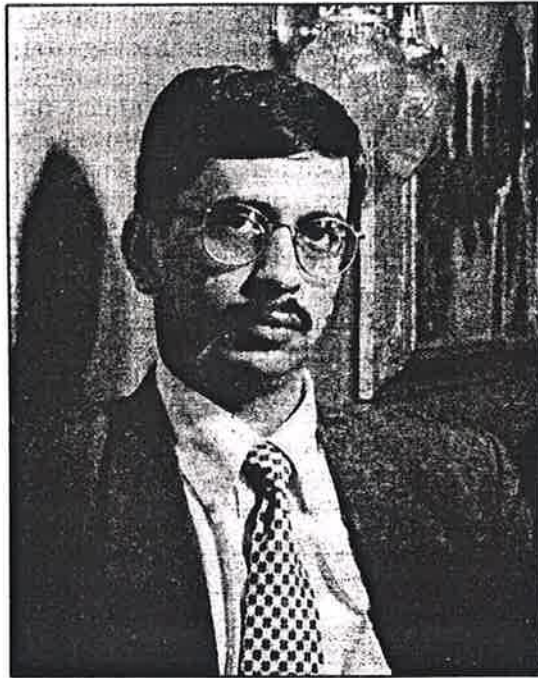
Hence, the company is putting all its efforts to come out of the shell shock. The forward-looking Jains are completely optimistic of turning around from the red by the end of the financial year 1999. In the financial year 1997-98, the company is expected to substantially reduce the loss from the last year's level, informs Mr Anil.

Background of the Jains shows that they have the resources and wherewithal to rekindle the company. The company has a substantial property base. More importantly, they have an adequate expertise and field experience in drip irrigation systems. They have completely absorbed the

technical know-how transferred to the company by various collaborators from time to time. The company also has a strong Research and Development (R&D) support for timely product innovation, introduction of new products and techniques.

No doubt, the strategies of amalgamation and financial restructuring will render a positive result in the long run provided bankers and financial institutions make adequate financial assistance available in time. If the Company and the Institutions do not act in unison, the Company will certainly head for sickness, the Chairman adds.

The amalgamation of Jain Plastics and Chemicals, Jain Kemira Fertilisers and Jain Rahan Biotech with JISL was a kind of vertical integration which has a



"Today, we don't need additional resources to run our businesses and what we need is only low cost additional working capital for which we have already made arrangements"

low as Rs 24.73 crore. This was partly because of the blockade of funds in receivables for longer than normal periods, especially in the case of exports. This has compelled the company to resort to the high cost market borrowings for bridging the working capital gap. "Now we are on our way out of the crisis", says Mr. Anil Jain, Managing Director of JISL.

The company has persuaded the bankers to release additional working capital in the current financial year. Institutions are restructuring the long-term loans. ICICI has already done it as of March this year. Other institutions like IDBI also will restructure the loans very soon. "Today, we don't need additional resources to run our businesses and what we need is only low cost additional

strategic value, Mr B H Jain believes. This has made the company one-stop-shop for manufacture and marketing of hi-tech agro inputs as well as purchase, processing and value addition of the produce purchased from farmers. As per the valuation done by N. M. Raiji & Company and Dalal & Shah, the merger of Jain Plastics and Chemicals took place in the ratio of 7:5 while Jain Rahan Biotech and Jain Kemira Fertilisers merged in the ratios of 12:1 and 25:1 respectively.


The Jains are the leaders in the areas of micro drip irrigation in the country. In future also the Jains are optimistic of maintaining the leadership position in this segment. Today, with about 60 per cent market share in this area, the company doesn't foresee any challenge to its pre-eminence in the near future.

They have technical tie-ups with Chapin Watermatics of the US for multi-chambered drip irrigation technique. Refocusing to strengthen the core areas of competence will continue to provide impetus to its long-term growth. This is enough to build up a strong industrial empire with the financial resources,

experience and expertise in this area, especially in view of the recommendation of the Agricultural and Co-operation Department of the Government of India to expand the agricultural area under drip irrigation in the country.

It may be recalled that the draft Ninth Plan has given highest priority to agriculture production and has estimated the same to grow by 100 per cent. The draft has also committed that the subsidies for three agro inputs, including drip irrigation will be enhanced during the Plan period. The government focus on agricultural area also infused a high level of confidence. "We expect that the National Agricultural Policy, which is likely to be announced soon, will lay emphasis on promotion of drip irrigation and water management concept," says Mr. Anil.

True to its credit, JISL is the only company in the country, which has done basic and pioneering work and gained insight into these areas. With a gradual spread of awareness of the advantages of micro drip irrigation system, as a water management technique, the



Awards won by JISL		
Name of the Awards	Purpose of the Award/Citation	Year
DSIR National Award	For R & D Efforts in Technology Absorption	1996
PLEX-CONCIL Award	Top exporters of Irrigation Systems & Drippers, Poly Carbonate Sheets, PVC Foam Boards, PVC Rigid Sheets & Second for Engineering Plastics	1995-96
PLEX-CONCIL Award	Top exporters of Irrigation Systems & Drippers, Poly Carbonate Sheets, PVC Foam Boards, PVC Rigid Sheets & Seconds for Engineering Plastic	1996-97
Trade Award, Govt. of Israel	For Indo-Israeli Trade Relations	1996-97
CFBP Jamnalal Bajaj Uchit	In the category of Manufacturer-Large	1996-97
Crawford Reid Memorial Award*	For significant achievements in the promotion of proper irrigation techniques and procedures and bringing about major advancement of the industry	1997

* Given to the chariman

company can play and enhanced role in agricultural development by way of helping the farmers utilising the existing irrigation facility for at least double the acreage. The company has already emerged as an unbeatable giant in this area in the domestic market and has emerged as a force to reckon with in the global market.

The support of the Research and Development (R&D) Division is significant in helping the company consolidate its position in the market. Considering the merit of its contribution toward\$ agricultural areas in the country, the Union government has conferred a prestigious award upon this division. This division is credited with

vast number of agricultural scientists, engineers and agronomists. "That is one of our strengths", says Mr. Anil. This division is fully devoted for developing new products, improving the existing products; production techniques for cost reduction and energy conservation. In the year 1996-97, R&D section had taken up many assignments which include the development of floppy sprinklers, development of co-extruded acrylic PVC sheets, roll forming process for plastic moulded products, improvement of flush valves, printing on moulded plastic articles, design and development of around 300 new moulds for irrigation system. The R&D unit has developed tube holding stakes, moulded quick

History of the promoters of JISL

Jain Irrigation Systems Ltd (JSIL) was promoted by Jain Group of Industries, Jalgaon in Maharashtra in the year. The group, headed by Mr Bhavaral Jain, began trading in agricultural products and auto products in 1963. The Group purchased a disused banana powder plant in 1978 and converted to the first industrial venture for the production of refined papain (an industrial enzyme produced from papaya latex, which is used as an additive in the brewing industry), through modernising the existing machineries. Today, the Group is the second largest producer of refined papain in the world and caters to nearly 20 per cent of the global demand. The Group found prosperity mainly on co-operation with local farmers, which subsequently led to a diversification into the manufacture of PVC irrigation pipes. The group established a range of plastic tubing/pipe products using and developing latest technologies and they are one of the main producers of PVC pipes. This business was carried on under the name of Jain Plastics Chemicals Pvt. Ltd, which later merged with Jain Irrigation Systems, the Flagship Company of the Group.

Major developments in the history of Jain Irrigation Systems

30th December 1986	Incorporation
January 1987	started supplying drip irrigation systems
October 1987	Entered into technology tie-up with James Hardie Irrigation (Italy) Srl to manufacture of drip irrigation
1987	Entered capital markets
May 1991	Diversified into manufacture of plastic sheets
1992	Capacity expansion to 26,400 hectare per annum
1992	Rights issue of convertible debenture
1993	Entered into PVC sheets manufacturing
June 1992	Rights issue of convertible debentures (PCD) to mobilise Rs 54.32 crore
December 1993	Commenced production of polycarbonate sheets
February 1994	entered European Depositary Receipts market to offer 2,696,600 shares
1995	Planned diversification into building aluminium and fibre reinforced plastic built ships
1996	Diversified into other areas like granite, information technology, etc,
1997	The company runs into trouble and reports loss of Rs 28.21 crore
1998	Decides to refocus on core areas of activities and sell off other non-core business admits mistakes of diversification.

release HDPE couplings, micro sprinkler adapters, hydro/pneumatic plastic fittings and various tools for assistance in installation, operation and maintenance. These are only some of the achievements of this division.

Similarly, in the areas of farming also, the R&D division has created a new milestone in the history of the company. The tissue culture lab of the company has carried out a large-scale micropropagation of Grand Nain Banana propagules. This lab is making all efforts to standardise protocols for micropropagation on clones of papaya, teak, garlic etc.

Considering the R&D effort in agro industries sector, the company was conferred DSIR National Award in the year 1995 and again for its efforts in technology absorption it was conferred the same award in 1996.

The company has got one of the best farming research infrastructures in the country. The contribution of this division towards agricultural development in the country, especially in the western region, is significant. It has, to its credit, several pioneering efforts in the area of hi-tech farming. For example, last year the R&D had undertaken, for the first time in the country, treatment of liquid and solid

waste through biofilters. Therefore, it has avoided use of high energy consuming pumps required for effluent treatment plants. Incidentally, this step has generated a by-product, vermicompost-an organic fertiliser that is rapidly gaining ground for use in organic farming. This energy saving innovation is a pioneering effort of the company. According to Mr. Anil, the company, which has developed many farming and irrigation techniques, will expand its marketing base in other parts of the country.

When compared to the base and infrastructure that the Jains have created in their traditional business, jumping into other areas where they have no expertise should be viewed as an uncalled for loss making proposition. The Jains have more than an adequate expertise in the agricultural related

"We are going to be globally in the top bracket in micro irrigation, global players in onion dehydration and are already Number 1 in PVC pipe business in India."

business. The growth of the company over the last decade bears a testimony to this.

Mind it, others who jumped into the areas - micro drip irrigation without any experience, where the Jains are presently a dominant force, were not successful. That was because of Jains strong agricultural background and commitment the

Future investment outlook

The company is promoted by Jain's of Jalgaon in 1986. The company has its major base in Marathwada region which is predominantly an agriculture area. JISL pioneered the micro irrigation systems in India. The company has covered more than two lakh acres under micro irrigation for more than 35 crops. It has an established network of nearly 22 zonal and 375 dealers and distributors in India.

JISL diversified into the manufacture of plastic sheets by setting up a separate EOU. The major exports (nearly 135 crore in 1996-97) are accounted for by this division. It manufactures a wide range of plastic sheets under the brand name "ex-cel". The product range includes PVC foam sheets, polycarbonate multiwall sheets, polytube, polycarbonate corrugated sheets etc.

The company has also successfully completed its European Depository Issue at a price of US\$ 11.125 in 1994. The main problems for JISL started around this time when it ventured into many unrelated areas viz. financial services, information technology, granite

mining, horticulture etc. The company was unable to succeed in majority of these areas and has lost heavily.

Past Performance:

The company's turnover has grown phenomenally from Rs.62.68 crore in 1992-93 to Rs.435.5 crore in 1996-97 (15 months). The operating profit margin was also very impressive at above 20 per cent in the past except for the year 1996-97 when it took a major beating and fell to 16.37 per cent against 29.96 per cent in 1995-96. The losses incurred by its subsidiaries and the huge investments made for diversification plans led to a sharp increase in interest from Rs.7.75 crore in 1994-95 to Rs.36.61 crore in 1995-96 and Rs.82.29 crore in 1996-97. The profitability was thus adversely affected with company reporting a net loss of Rs.28.4 crore in 1996-97 against a net profit of Rs.14.63 crore in 1995-96.

Prospects:

The company has initiated a major restructuring exercise by diversing from unrelated subsidiaries, selling off of surplus real estate, selling off the

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type

“Our assumptions went wrong when the capital market tumbled. We have learnt from the mistake and taken corrective course of action. But it will take some time to see the result of the corrective step that we have already taken...”

company could emerge as a king in the area.

Like the Jains, many others also have burnt their fingers badly in the areas of granite and financial services. As a result, they found steep erosion in the bottom line of their core businesses. Investments made in the area of granite are huge. But this business did not make any operational loss. For the financial year (15 month period) ended June 1997, the granite subsidiary - Gowtham Granites Ltd. recorded a turnover of Rs 5.38 crore which is nearly three times higher than the previous years turnover. Still it is far lower than the total investment made in that area. Profit after tax was at Rs 41.10 lakhs, up from Rs 35.90 lakhs in the year 1996-97. “We are getting out of this business not just because this was unprofitable. This unit was of course making profits,” says Mr Anil B. According to him, the original objective of getting into this business was to increase the basket of the company's export products. “That time, this was a sunrise business and at present with the rupee depreciation this can become more profitable,” he opines. Then, why does the company think of getting out of this business? Answers Mr Anil, “because we want to stay in a business where

we are going to be globally leaders.”

It was in the year 1992 the company started manufacturing plastic sheets from its export-oriented division. Plastic sheets product lines, sold under the brand name *Ex-cel* include PVC rigid sheets, PVC foam sheets, PVC integral sheets, moulded plastic items, polycarbonate compact sheets, polycarbonate multi-wall sheets as well as polycarbonate corrugated sheets. The idea behind setting up of this division also was to earn more foreign exchange. Today, this unit brings home a substantial export income, last years being Rs 6.09 crore. This year the plastic division of the company received an export award. No doubt, today, Jain Irrigation is emerging as a major player in plastic processing. The business of dehydration of vegetables brought an export income of Rs 5.89 crore and Papain, an enzyme brought Rs 2.48 crore for the year ended June 1997.

In onion dehydration also, JISL is hopeful of becoming a global major. In PVC pipes; it is one of the leaders in the country. “Thus we want to stay in the business where we have leadership at home as well as abroad,” Mr Anil says. “But in granite and

Jain Irrigation Systems Ltd.

Income & Expenditure	Rs.Crore						
	Mar-93	Mar-94	Mar-95	Mar-96	Jun-97 (15 months)	Jun-98	Jun-99
Income							
Sales	62.68	92.26	144.41	200.74	435.50	348.40	383.24
PBDIT	13.14	25.26	32.53	60.14	71.30	69.68	76.65
Operating margin (%)	20.96	27.38	22.53	29.96	16.37	20.00	20.00
Interest	2.62	8.28	7.75	36.61	82.29	65.83	52.67
PBDT	10.45	16.86	24.68	23.53	-10.99	3.85	23.98
Depreciation	1.97	3.58	6.05	8.90	17.41	17.41	15.67
PBT	8.48	13.28	18.63	14.63	-28.40	-13.56	8.31
Tax	0.00	0.00	0.00	0.00	0.00	0.00	0.87
PAT	8.48	13.28	18.63	14.63	-28.40	-13.56	7.44
Paid up Capital						20.24	20.24
EPS							3.68

which will ease out the interest burden substantially.

The restructuring exercise will slow down the turnover growth for the company. However, this will help in boosting the operating margin. The company is expected to report a lower net loss of Rs.13.56 crore in 1997-98 and will come back to black in 1998-99 with a projected net profit of Rs.7.44 crore.

Recommendation:

The investors have lost heavily in this scrip. However, the worst seems to have been over and the share price does not seem to have any major downward risk. Fundamentally, one cannot recommend the scrip for investment at this stage. However, technically, the charts suggest the

information technology business etc. Though, the time frame for this is kept at two years, the completion of exercise will release surplus of nearly Rs.100 crore

potential for the scrip to touch a level of around Rs.35 in near future. The investors are thus recommended to hold on for the time being. ■

software, we cannot be in the top slot," he admits. "This is compelling us to get out of these businesses. Moreover, we will be able to give more attention to our core business," he avers. Their investment in granite business is more than Rs 25 crore.

Similarly, the company invested heavily into the projects of Atlaz Technology Pvt. Ltd. and Jain Securities. While Atlaz Technology, engaged in telecom business, sucked a sum of about Rs 11 crore, the company has made currently unrealisable investment of over Rs 17 crore in Jain Securities. This had pruned the purse of the Jains and the core business has been put to loss. Consequently, the company incurred a loss of Rs 28.21 crore for the period ended June 1997 on a turnover of Rs 394.3 crores. Export turnover of the company for the period was at Rs 134.10 crore.

"But we are sure that we will be able to get out of these businesses, though with bruises. We have good assets in Gowtham Granites. It has potential granite mines and most modern machineries, which can be realised for good amounts. Selling these companies will enable the parent company to repay the high cost loans. At the same time, we will continue to concentrate on increasing the revenue of the parent company. The company also has some surplus assets in Jalgaon and Mumbai to liquidate. That will happen in a course of three years. Now we are not in a hurry to dispose it off as the overall market remains depressed," says Mr. Anil.

"Now, core businesses are on path to normalcy. And in next couple of years the company will recover its blue-chip status. The business volume will rise with the expansion of market base," he says. The Jains are dedicated to make the company financially stronger. With the rectification of the mistakes of diversification, the core businesses are getting deliverance to glide across an era of growth. ■

Bhavarlal Jain

A First Generation Optimistic Entrepreneur

An entrepreneur who always admits his mistake and an optimist could be rarely seen. That is the reason why Bhavarlal Jain is different from others. It is the same optimism, Mr Jain, 61 is keeping even when his flagship company Jain Irrigation Systems Ltd. ran into trouble last year with a loss to the tune of Rs 28 crore. Born in a village farming family at the foot hills of Ajanta caves in Maharashtra. Mr. Jain secured a Degree in Commerce and Law and subsequently the coveted job of a Gazetted Class I Officer in the State Civil Services.

True to his leanings, however, he pruned the job and began a small business with a meagre seed capital of Rs 7000 in 1962. Today, this small enterprise has blossomed into not only an Industrial House of repute, but is recognised as an Institution that is interwoven into the very fabric of the society, which it stands to serve. All the focussed industries, which Mr Jain leads, are impacted with high social content and are in harmony with national priorities: Agriculture, Export and Solar energy.

Fanatical addiction to work has earned Mr. Jain personally four National Awards and three heart attacks on the other side. As a trading house, his businesses were the first to sell kerosene oil through a dispensing pump, second to emerge number one Esso Dealer in India for sale of light diesel oil and third to set up the multiproduct purpose agro centre alongside a petrol pump in 1975. Innovation has been part of



Mr. Jain's personality from year one.

Mr. Jain spotted an opportunity in 1978 for processing and refining raw papaya latex into an enzyme called papain. From inception till today, Mr. Jain's business maintains 'Number One' position as manufacturer-exporter of highly purified refined papain in the world. This is a tribute to the indigenous R & D effort. In 1980, Mr Jain ventured into manufacturing of yet another agro-product - PVC pipes. These pipes are used mainly for agricultural irrigation. In this field, he heralded a marketing revolution by creating a network of 120 retail dealers at tehsil grassroots level in rural India. Not surprisingly, he soon commanded Number One position in the industry. He was also the First to introduce lightweight ribloc pipes to the Indian market.

What really catapulted Mr. Jain on the national and international

scene, however, was his pioneering zeal in setting up the first listed company in the rural area in 1987: - Jain Irrigation Systems* Ltd. This company pioneered for drip irrigation, an integrated approach and eventually harbingered Second Green Revolution in the country. Tissue culture, green houses, bio-fertilisers, bio-pesticides, liquid fertilisers, water harvesting and host of other hi-tech agro concepts became a part of the grand design to open the flood gates of technology for the farming community. Mr. Jain, with the help of Israel and other developed nations, was the first to bring these to Indian farmers.

Recently, Mr. Jain has set up food processing units for dehydration of onion and vegetables and processing of banana and mangoes. This facility is unique and the only one of its type and size in India. It has the cutting edge of world-class technologies. This is in fulfilment of Mr. Jain's vision of establishing an integrated business, which first supplies high-tech agro inputs and then buys back the output from the farmers for further value addition and exports. Mr. Jain believes this to be the way to "establish leadership in whatever one does at home and abroad."

True to his native instincts, Mr. Jain is back to the farming and aspires to demonstrate that farms can become factories. The 1051 acres R & D farm, personally supervised by Mr. Jain, demonstrates hi-tech agriculture in all its facets and undertakes basic research on agronomic practices and development of varieties of vegetables and fruits. Central Government's National Awards for R & D in Agro-industry and AIPUB's Nalla Vashai Award for outstanding contribution in popularising drip and fertigation in banana tissue culture plants are but a recognition of these efforts. For significant

achievements in promotion of drips irrigation techniques and procedures and bringing about mass or advancement of the industry outside USA an Irrigation Association of USA had bestowed the prestigious CRAWFORD-REID MEMORIAL AWARD in 1997 on Mr. Jain, the first Indian and the 2nd Asian to receive it since an inception of the award in 1979. His latest venture is solar water heating systems. This will tap the power of sun, conserve energy resources and preserve environment.

Having centered his production activities at Jalgaon, he has contributed induction of an investment of over Rs 500 crore in this town and employment to over 3000 people and indirectly created jobs /

Mr. Jain has conscientiously tried and achieved a symbiosis between pursuit of material progress and promotion of environment

earnings—opportunities for another 10,000 families. International visitors and collaborators are highly impressed by the unique feature of his having developed a committed and versatile work force in a rural base of rural environment to handle multidimensional diversified business, production and technological activities.

Export of non-traditional items to the developed nations is an unflinching obsession with Mr. Jain. He has led the Group companies to capture the European and U.S markets and creates brand equity for the *Ex-cel* Plastic Sheets used for signage, display and interiors.

Group's unflinching passions for quality and excellence have earned over 38 export awards and trophies at State and national levels. The Jain's Group exports have already crossed Rs 100 crore.

Mr. Jain represents a character that is intensely Indian. His businesses are driven more by ideology than by profit. His reach extends far beyond erection of physical assets. Commitment to rural upliftment through meaningful assistance in the areas of health, education and culture are but a part of his daily life. All business people are called "Associates" and Mr. Jain treats them as collaborators in creation.

Wherever he is, there is nature. Mr. Jain has conscientiously tried and achieved a symbiosis between pursuit of material progress and promotion of environment. In so little a time, so much has been compressed. Mr. Jain's stated Mission is "Leave this world better than you found it." He is fulfilling that Mission every inch and in everything that he is doing. One can see him, feel him and know him only through his work.

Every true man is a cause. Mr. Jain's purpose is to earn a pride of place for Indian Agriculture in the field of exports by augmenting productivity and adding values. His purpose is to put a rural, mofussal town like Jalgaon on the world map. His creations are already attracting people not only from across the country but from 20 different countries on the globe.

Mr. Jain and his team are a phenomenon, an institution in the field of agriculture. Read it forward, backward or across, it still spells the same thing. And this institution is the lengthened shadow of one man-Bhavarlal Jain - lovingly called 'Bhum: Putra' and 'Bhau'.