

# Business India

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**The Maruti IPO**

# First in Class

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- When we wrote about Zip Telecom Ltd., the company was providing payphone services under strategic alliances with private operators. Four years hence, much of its initiatives has been stalled.

### 30 Business Notes

- In answer to the ecocritics, plastics begin to acquire another property in addition to their versatility - biodegradability
- Microfinance becomes the latest enthusiasm of one of the world's leading financial services organisations - Citigroup
- India's venerable aircraft carrier is sinking into ignominy
- About a month ago several of India's leading graphic designers came together and decided to form a forum
- With not much scope available for tapping solar energy in Rajasthan, the government is keen to harness the vast wind energy sources in the western region of the state
- Indian Oil Corporation has launched a new initiative and introduced IOC Xtra

# More crop per drop

**Jain Irrigation Systems has weathered the financial setbacks that had once loomed large and has emerged more vitalised after a restructure to take on the future**

**I**t is the stuff that dreams – and legends – are made of. A young farmer, whose forefathers had in 1887 migrated from arid Rajasthan to a rain-starved corner of Maharashtra, becomes the first in his family of cotton and vegetable cultivators to gain an education, borrows Rs7,000 of accumulated savings of three generations as capital to start vending kerosene on pushcarts, and within 40 years evolves this vocation into a diversified enterprise that boasts a turnover of Rs347.51 crore.

What's more, 65-year-old Bhavarlal H. Jain now has four capable sons who are charting spectacular growth plans for their listed company. Jain says his company is aspiring to a turnover of Rs1,000 crore over the next four years. Five heart attacks, two bypasses, one angioplasty and recent hospitalisation for observation have not shaken his commitment, as he affirms, "I emerge reinvigorated after every such setback." Every morning he walks around his complex, consulting with his employees he calls "associates", and then works at his office as the life-long chairman of his enterprise. In turn, his employees refer to him as "Bhau", meaning brother in Marathi.

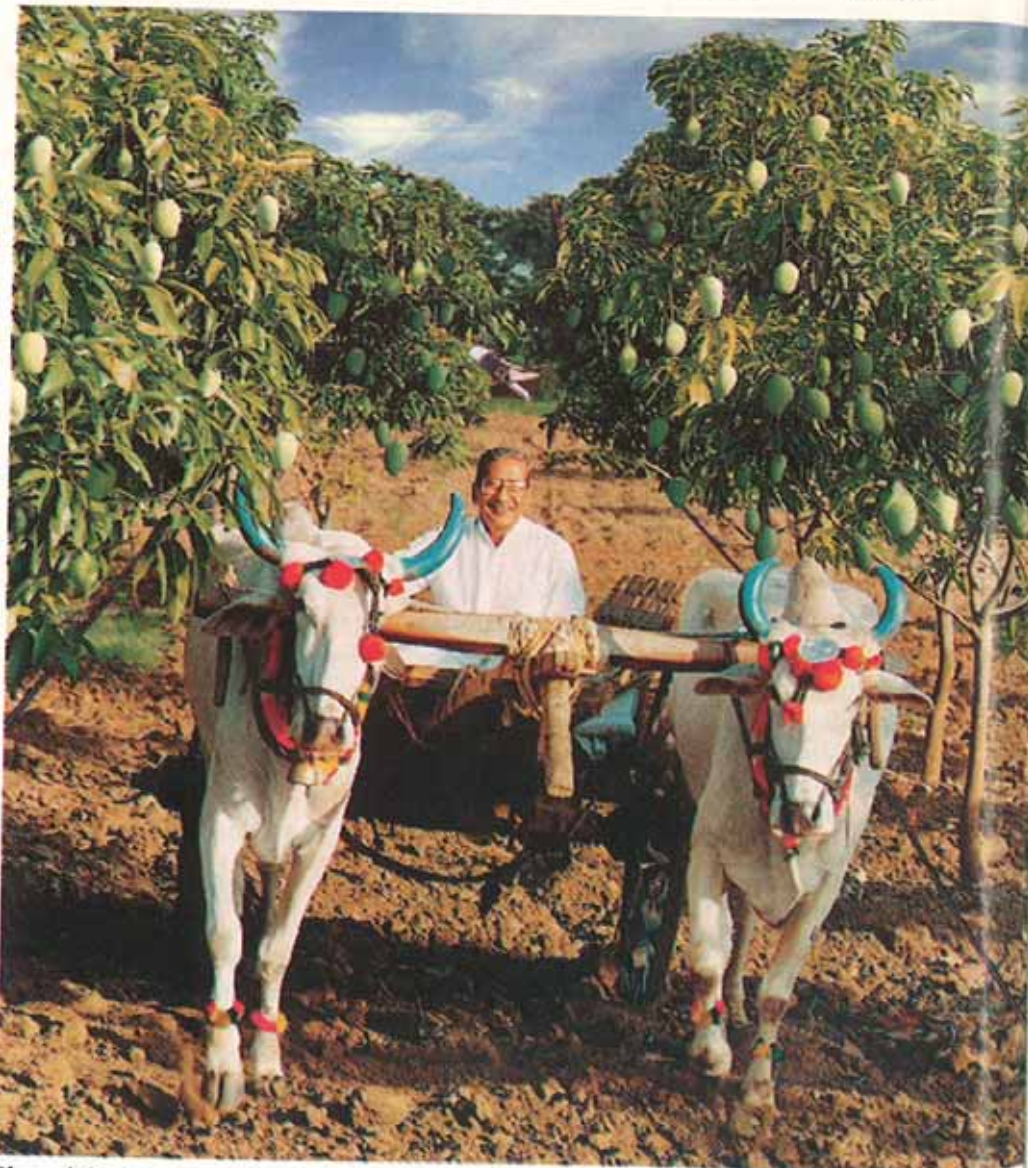
With over 2,600 "associates" worldwide, 80 per cent of them locals, Jain Irrigation Systems Ltd (JISL), headquartered in Jalgaon in north Maharashtra, has established its leadership in such diverse spheres like micro- and sprinkler-irrigation systems and polyvinyl chloride (PVC) and polycarbonate (PC) pipes and sheets. In addition, it deals in agro-inputs like seeds, bio-fertilisers and tissue culture, agro-processed products like fruit purees and pulps, dehydrated onions and vegetables, and solar water heaters. "There is a strong synergy amongst all our products which are essentially environment-

friendly and find application at all levels in agriculture," remarks Jain.

A series of financial debacles from 1996-97, however, eventually compelled the Jains to cede their majority equity holding to an overseas fund in a debt restructuring pact entered into on 20 August 2002 with a lock-in period till 31 March 2005. "Whatever could go wrong, went wrong," recalls 38-year-old managing director Anil

Jain of those bleak years. "Between 1994 and 1996, we ended up, as with many other business houses then, committing to 12 different projects that were partly expansion, partly related diversification and partly unrelated diversification." The company eventually got snared in a debt trap, as the capital market crashed and interest rates went up, and it had to borrow from the private market as banks declined to lend.

Specifying that the accord with Aqua retains managerial control with the promoters, Anil Jain says, "It was while our company was in the process of converting some of its loans to long-term investments and getting some penalties waived that it was approached in April 2001 by Aqua



*Bhavarlal Jain is convinced the future is bright as the problems get surmounted*

## FINANCIALS

Figures in Rs crore	As on 31/3/2003*	As on 31/3/2002
Equity share capital	47.89	22.80
Preference share capital	93.53	152.01
Share premium	279.95	126.06
Net worth	291.19	164.45
Loan funds (long term)	202.85	356.20
Gross fixed assets	378.45	403.28
Debt equity ratio (times)	0.70	2.17
Book value per share	41.27	5.54
Market price per share	42.38	25.05

\*Estimated. Current market price on BSE (16/5/2003)= Rs 50/-

International Partners L.P. of San Francisco." Negotiations and due diligence became protracted owing to the 11 September 2001 terrorist attack on the US and the border impasse with Pakistan, he mentions.

Its agreement with the strategic investor entailed JISL making preferential allotment of 2.37 crore equity shares of Rs10 each to Aqua at Rs77.37 per share, that is, a total investment of Rs183.37 crore, or \$40 million by the then exchange rate. Aqua thereby wrested an equity holding of 49.4 per cent on the expanded equity base of Rs47.62 crore, the move whittling down the promoters' stake of the Jains from 72.27 to 35.6 per cent on the current equity base of Rs22.79 crore. These issue proceeds are being leveraged by JISL to repay its creditors and redeem existing secured and unsecured debt in the form of non-convertible debentures and cumulative redeemable preference shares issued under the debt restructuring scheme, as also to use the balance funds as long-term working capital. With the theme of water and water-related activities, Aqua's primary interest in JISL stems from what it sees is the global potential in drip irrigation and JISL's ability to emerge as a global leader. Like in all Venture Funding agreements, the Jains may well regain equity control by exercising the buy back option any time after 31 March 2005.

While the agreement resulted in Bhavarlal Jain's being anointed chairman for life, Ashok Jain, his eldest son

who is 40, was redesignated from vice-chairman to president. A member of the \$12-billion Texas Pacific group, Aqua is a \$325 million fund established in 1997, with support from the US Overseas Private Investment Corp (OPIC). Aqua is now represented on the nine-member JISL board with two American and two Indian nominees – including its managing director John Sylvia – and will influence long-term policies as the largest shareholder. The redesignations have left unchanged Anil Jain's position as managing director, while Ajit Jain, 37, is no more joint MD, but the chief operating officer. The youngest brother, Atul, who is 33, has not been a director and is now the chief marketing officer. Another who has lost his directorship is R.B. Jain, the senior Jain's cousin and a chemical engineer from IIT, Kharagpur, who is now the chief technical officer. There is a proviso for increasing the representation of Aqua, the promoters and the independent members/lenders nominees by one each.

Ashok Jain indicates, "JISL has hitherto managed to repay most of its debt, which extended to over Rs235 crore." Moreover, on 15 December 2002, JISL signed an agreement for sale of two sets of polycarbonate equipment and other assets to GE Plastics India Ltd. The latter, in turn, leased back these facilities to JISL as a 100 per cent Export Oriented Unit (EOU) for exports to GE under its brand name as also domestic sales and exports in the name of the manufac-

turers. The turnover is hence unlikely to be affected by the sale of equipment and other assets.

It was after graduating from Mumbai's Poddar College that Bhavarlal Jain passed the IAS examination and was almost appointed deputy collector when he had a change of heart and opted to become a first generation entrepreneur. He bought some drums and kerosene and in 1963 moved from Wakod where his forefathers had settled 5 km from the renowned Ajanta Caves, to Jalgaon, Maharashtra's major banana growing district located 40 km away. Dr V.R. Subramaniam, an entomologist and manager with JISL, says Jalgaon has desiccating winds, with temperatures ranging between 7 and 44 degrees Celsius and rainfall that ranges between 260 and 300 mm, though last year it had recorded 400 mm. With his brother Kantilal, Bhavarlal Jain set up a family partnership concern called Jain Brothers and soon acquired dealership of Escorts tractors and Rajdoot motorcycles. By 1970, he had added agricultural implements, seeds, fertilisers and pesticides to his portfolio and had started selling PVC pipes as Garware Chemplast's dealer. From the profits he purchased land, which today straddles 1,000 acres which his company uses as a demonstration farm and for conducting field research.

In April 1978, Jain Brothers embarked on their first manufacturing venture when they cornered a sick banana powder plant at an auction for Rs30 lakh when they had only Rs2 lakh as investible surplus. After modifying the plant for the production of papain from papaya latex, Jain set off for New York in quest of customers. The heartening response positioned the company on the international map as India's foremost supplier of refined papain, a meat tenderiser and an enzyme application for pharmaceuticals. This business was terminated last year as its viability was eroded by synthetic substitutes produced in the West, says Anil Jain. "We transferred most of the plant equipment to our fruit processing activity," he adds. "But our foray helped our company gain valuable insight into



Three generations of Jains – led by Anil, Ashok, Bhavarlal, Ajit and Atul – are focussed on their business

the agricultural sector, helping us build enduring ties with farmer communities and also acquire basic experience for our food businesses."

The year 1978 was also the time Jain Brothers was rechristened Jain Plastics and Chemicals Ltd, overall sales nudging Rs11 crore from Rs10 lakh in 1963, a 110-fold increase. In 1980, the company commenced manufacture of PVC pipes with an annual capacity of 300 tonnes, since augmented to 37,000 tonnes, making it India's single-largest producer of PVC pipes. Sales in 2002-3 of these plastic piping systems accounted for 40.12 per cent of the overall turnover (see Table 3), with the plastic sheet division contributing 24.25 per cent, micro-irrigation systems, another 17.96 per cent, agro-processed foods, 15.27 per cent, and solar water heaters, 2.4 per cent. The PVC and PC sheets are exported under the brand name Ex-Cel. "A closeknit dealer distribution network in the rural areas together with continuous automation, upgradation of product facilities and in-house R&D for optimum capacity utilisation has kept us at the forefront," notes Atul Jain. "The growing export range now extends to casing and screen piping systems." The machinery was imported from Cincinnati Milacron, a global leader in plastics processing machinery and mouldmaking

equipment. "Cincinnati also gave us credit and raw material," Anil Jain says. "We improved upon their equipment and expanded production through technology, becoming the country's largest producer of PVC pipes."

The Rs521 crore (2002-3 turnover) Pune-based Finolex Cables Ltd and Mumbai's Rs567.15 crore DCW Ltd are JISL's key competitors in the PVC sector. Finolex's challenge is, however, dimming as it produces mostly PVC sheets, which account for a mere 2.2 per cent of its business this year, and slipping sales have compelled the company to prune its manufacturing capacity and review the scale of operations. DCW's PVC division, however, showed a brisk turnover growth of 20 per cent, to Rs304.47 crore, with production rising from 62,344 tonnes to 64,834 tonnes. Since PVC is already the most widely used thermoplastic in India, with a growth rate of over 15 per cent, the space is not cluttered.

Ashok Jain maintains that his com-

pany has an edge as it has meticulously built up a ready kinship with the farmers through an integrated rural marketing approach that includes contract farming. Says he, "We sell them vital inputs such as the micro-irrigation systems and genetically superior planting materials, offer them agronomical guidance, then buy back their produce, adding value to it for sale to overseas and domestic markets." JISL has over the years built an enduring brand equity with its product range, namely, Jain Drip, Jain Sprinklers, Jain Tissue-Culture, Jain Pipes, Jain PE pipes, Jain Solar, Farm Fresh processed vegetables and fruits, and Ex-Cel. The corporate establishment comprises the Jain Plastic Park for the Drip Irrigations Systems (DIS), plastic piping and sheet, the 1,000-acre Jain Agri Park sprawl, the R&D farm and tissue culture facilities, and the Jain Food Park.

"Our company has 27 marketing offices in India and two overseas, in Twickenham in the UK and in Columbus, Ohio," says Anil Jain. "We export to 60 countries worldwide, our clients ranging from farmers who buy our farm inputs, to multinationals like Coca Cola, Nestlé, the Netherlands' Cargill, Riedel and United Warehousing and Forwarding, Canada's Dobexco Foods, the UK's Sleaford and John A. Taylor, Iran's Pakdis, Cibtak and Noosh Mazandaran, Japan's Taiyo Kagaku and FIC, SKF foods of Denmark, Worlee, Trokost and Schumacher of Germany, Culinar of Sweden, Grupo of Guatemala, Lee Pineapple of Malaysia, and NADEC of Saudi Arabia." Its processed foods and dehydrated onion serve a clientele that includes McDonald's, Coca Cola and Pepsico, and its pipes, used for cable ducting, and conveying water, gas, effluents, bandwidth and the like, are sold domestically to the Tatas, Reliance, L&T, the Aditya Birla group, BPL, Bharti, HLL, Mahanagar Gas, Gujarat Gas and Himachal Futuristics. The company is besides served by a wide dealership network in India and abroad.

In 1986, the Jains renamed



their company Jain Irrigations Systems Ltd and on 17 October 1988, listed it on the capital market with a public issue of 410 lakh equity shares of Rs10 each at par. Ajit Jain recalls how 1989 proved to be a watershed for the company as it successfully pioneered water-management through micro-irrigation. "This initiative led to the introduction into Indian agriculture of such high technology concepts as an integrated systems approach, a one-stop-shop for farmers, infrastructure status to micro-irrigation, and farm as industry," he observes. In 2002-3, jisi produced 4,023 tonnes of tubings and 631 tonnes of mouldings with sales of Rs60 crore, projected to increase to Rs101 crore next year.

Senior vice-president Charitra Jain, who is no relative, looks after the world class food processing facility he helped set up in 1994 for dehydrating onions and vegetables, and for producing fruit purees, concentrates and pulp. "These plants are ISO9001- and HACCP-certified and meet international Food and Drugs Administration (FDA) statute requirements," he claims. "They combine modern technologies of the West and the vast, mostly untapped agricultural resources of India, using local human resource; at the same time, we have set ourselves a goal to become a major and reliable global supplier of food ingredients of the finest quality." With a yearly production capacity of 2,700 tonnes, the onion and vegetable dehydration plant and a customised multistorey mill imported from the US, the only one of its kind in Asia, is capable of slicing, chopping, kibbling, mincing, grinding, granulating and pulverising with applications in fast foods, pizzas, soups, gravies and ready-mix shelf foods. "The average Indian onion has a mere 13 per cent solid content, that is, the volume left after dehydration, whereas we have developed a type that yields 22 per cent and are working on enhancing this to 25 per cent, attained by Californian onions," Jain mentions. The company has smaller dehydration units also at Vadodara and Nashik and an ancillary fruit processing plant in Sangli.



*Charitra Jain says the goal is to become a global supplier of food ingredients of the finest quality*

Dr K. Nag is one of the 16 doctorates Anil Jain says his company employs, apart from "the largest number of agri-scientists in India's private sector". The laboratory in-charge mentions that while his facility can trace any of the 48 pesticides in use in India, the stringent standards imposed by the Jains on their own fields and on their contract farmers and the scrupulous in-house cleansing processes have ensured that their full range of agro-produce conforms with WTO stipulations. Dr V.P. Singh, who is senior manager with Jain's tissue culture lab for micro-propagating tissues from carefully selected disease-free mother plants of banana, indicates that jisi has so successfully adapted California's Grand Nain strain of banana that the demand has far outstripped its production. jisi produced 32 lakh plants last year, 34 lakh this year and has targeted 45 lakh for next year. This variety was introduced through collaboration in 1994 with Rahan Meristem Ltd, an Israeli banana germplasm company, which accounts for a tenth of the worldwide export of banana seedlings.

"While the normal banana will yield one crop in 27 months, Grand Nain yields three crops within 30 months," Singh explains. "Sucker cultivation from elite banana plants has

increased yields by 30 per cent." Apart from Maharashtra, Jain now has customers for its crop in Gujarat, Karnataka and Uttar Pradesh and cultivators have seen their profits soar from Rs25,000 an acre for their normal banana yield to Rs70,000 to Rs1 lakh an acre with Grand Nain strains, says researcher Kalyani Moharir. Subramaniam adds that jisi's research laboratory has yielded banana juice which is golden yellow and clear, but not yet ready for commercial use. Research is also on-going on a 145-acre plot with densely planted mangoes of different varieties, including the famed Alphonso, for eventual commercial use for the fruit processing plant, he notes. jisi markets its foods under the brand name Farm Fresh, now readily recognisable in the US and Europe.

Anil Jain says jisi was compelled to diversify into the allied field of food processing as it had foreseen competition emerging from pipemakers who mushroomed in the mid-1980s. "Their low investments spawned a ready unorganised sector that compromised on quality, rendering it difficult for us to compete," he explains. Hence, as the company repositioned itself as jisi in 1986, it forged a five-year technology partnership with James Hardie Irrigation of Sydney. But while Hardie's systems were designed for large farmers, Jain adapted them for the smaller landholders in our country. "Introducing water conservation techniques was, however, a painstaking process as the mindset of the Indian farmers was that more water spells more crop," says Ajit Jain. "To expose them to the virtues of this system, we took these farmers, clad in dhotis and kolhapuri chappals and who had never before left their districts, to demonstration farms and even workshops and seminars in Australia, Hawaii, Israel and California." The Jains themselves established a pilot farm in Jalgaon to prove that the system works in India as well and carried out various techniques in wasteland reclamation through watershed planning and water harvesting techniques like micro-minor irrigation, terracing, bunding and recharging groundwater.

It was whilst attending an international micro-irrigation conference in California in 1995 that the Jains found drip irrigation ideal to counter water scarcity. "The Centre too has recognised the worth of this system in the last Union budget by setting up a Task Force on Drip Irrigation chaired by Andhra Pradesh Chief Minister N. Chandrababu Naidu with my father as a member," Anil Jain remarks.

An ardent admirer of the Jains' enterprise, Shivajirao G. Patil, ex-Rajya Sabha MP and chairman of the Indian Sugar Exim Corporation Ltd, nonetheless mentions that the capital cost of a drip set is daunting for the average Indian farmer, extending to as high as Rs35,000 per acre. Both Ajit and Anil Jain indicate that such costs depend on the area cultivated and the crop sown, but assert that the returns are prodigious. Maharashtra accounts for around half of the 1 million acres cultivated nationwide under the drip method. A study by the Indian Institute of Economics shows, for instance, that drip irrigation, costing Rs33,595 for a 2.11 hectare banana field, ensures per hectare increased yield of 153 quintals and increased profitability of Rs32,500, with the life period of the drip set being five years. Fertilisers can be applied through the system as well, a process termed fertigation, cutting down on extra labour, observes Ajit Jain.

Ashok Jain maintains, however, that the Maharashtra government's scheme of providing a 50 per cent subsidy to farmers installing drip sets - with a ceiling on the number of beneficiaries per district - was very popular and hence invariably overbooked. "But subsequently this subsidy was reduced to 35 per cent and we have been informed that corruption has undermined this scheme," he points out. "Besides, with Rs30 crore subsidies pending to us from the government, we have decided to abandon

the scheme and are now selling our drip systems on cash payments at a 15 per cent discount." JISI has managed to sustain profits as it now receive payments up front, he adds.

It was from 1996-97 that JISI's fortunes started dimming. "Between 1994 and 1996, we ended up committing to 12 different projects that were partly expansion, partly related diversification and partly unrelated diversification," says Anil Jain. Apart from the debt trap, some projects encountered a disaster like the onion

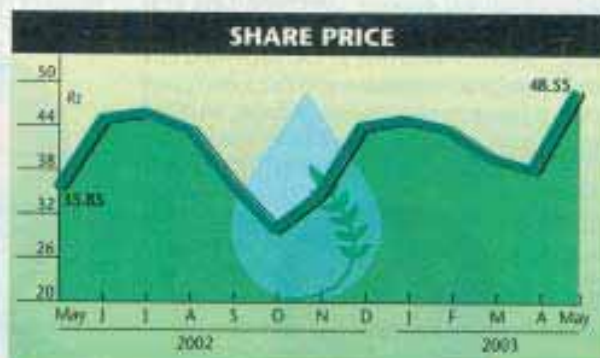
In late 1998, JISI engaged KPMG to assess the long-term viability of the company and its product demand. "But our lenders felt that though we were rechanneling profits into the growth of the enterprise, they would wait and watch if we were capable of a turnaround," he says. As JISI had a large number of lenders, it took almost three years to convince them of the proposal for the loan restructuring, though certain banks like American Express and Deutsche Bank withdrew. Bhavarlal Jain remembers

how 20 years of the "we can do it" spirit and the post-liberalisation euphoria had led his enterprise into these ill-planned forays into finance, infotech and granite. "We took risks in the quest of sunrise industries with a bright future and excellent profit profiles, but soon discovered that managing them was infinitely more complex," he declares. "What's more, we could not provide them leadership and pressure from them drew attention and resources away from our existing strong main businesslines at a crucial time."

But referring to his company's on-going efforts to turn the corner, he affirms, "It is the daily renewal of faith in quality and excellence and in continuous innovation that presupposes improvement." While acknowledging that his "associates" and sharehold-

ers have in the recent past not secured the dividends they have deserved, he deems the prospects bright now. "We have redefined our priorities and while we were ideology conscious in the past, we are now profit conscious as well," he maintains. "This is necessary in today's competitive world." He is nonetheless clear that JISI's focus will remain on its core competencies in agro-industry, with possible forays into academia pertaining to agriculture as it already enjoys a collaborative and post-graduate research with various universities.

• VARISH BANA



Figures in Rs crore	CAGR (%)	2002 (A)	2003 (P)	2004 (E)	2005 (E)	2006 (E)
Irrigation systems	41	83	60	101	121	145
Pipes & fittings	26	127	134	179	215	258
Plastic sheets	5	60	81	136	163	196
Agro processed	140	37	51	89	107	128
Solar	60	4	8	10	12	15
<b>Total</b>	<b>33</b>	<b>311</b>	<b>334</b>	<b>515</b>	<b>618</b>	<b>742</b>

\*During 1999 to 2001. (A) Average. (P) Projected estimate. (E) Estimate.

dehydration plant. "While the price of onions had hovered around Rs8 per kilo for the past 20 years, it spiralled to Rs40 just as we were setting up the plant, rendering it unviable to start operations," he recalls. "We also faltered with some companies we set up, namely, Atlas Technology Pvt Ltd, Gowthan Granites Ltd, Jain Securities International Ltd, and even a private rural bank." The company's Jain Sunwatt solar water heating systems, however, did not fare badly, launched in 1994 following a technical licence agreement with Israel's Amcor Ltd.