CHAPTER 7

CASE STUDIES: UNSUCCESSFUL TURNAROUNDS OF TWO PUBLIC SECTORS

This chapter deals with cases developed from two unsuccessful turnarounds in public sector organizations in Karnataka. They are company 5 and company 6.

7.1. Case Study 5: Unsuccessful of Public Sector - Company 5

There was a time when a wrist watch for an Indian meant Company 5, as every Indian took pride in flashing the Company 5 watch that adorned his wrist. But then like an old gladiator, the watch faded out from the wrists and the company from the Indian market. On the one hand, it was hounded by the changing market scenario, while on the other hand the company failed to respond to the changing consumer behaviour. This case analyses the sickness and the failed efforts of turnaround associated with Company 5 Watches.

Introduction

Company 5 has been one of the leading manufacturers of a diversified range of products including printing machinery, machine tools, tractors, watches, bearings, die casting and plastic processing machinery, metal forming presses, and CNC Systems in India.

Established in 1953, as a Government of India undertaking, Company 5’s initial objective was to manufacture Machine Tools. Over the years, Company 5 diversified into manufacturing products which included printing machinery, tractors, watches, machine tools, bearings, metal forming presses, die casting and plastic processing machinery and CNC system. For about four decades, Company 5 dominated the scene in many of these products. However, by the mid-nineties, Company 5’s performance started slipping, in the light of the liberalization of the economy and the changing market scenario. It was not capable to record earnings since 1993–94. The hefty expenditure, together with huge employee expenses together with huge interest burden made Company 5 non-competitive in the face of amplified competition. After several years of overwhelming debt, in the year 2000-01, the company decided to go for a turnaround.

The Government of India approved the Turnaround Plan in August 2000. Company 5 watches adopted the same arrangement in order to progress the performance of the parent company. All
measures as affirmed in the Turnaround Plan were commenced by Company 5. These measures were in accord with the Memorandum of Understanding signed with the Government. Two major policies under the restructuring mechanism were conducted in accordance with the agreement. Firstly, manpower restructuring was initiated through a Voluntary Retirement Scheme (VRS) and secondly financial restructuring was undertaken by settlement of outstanding dues to Financial Institutions (FIs) and Banks.

However, according to the scheme of arrangement, whatever changes that were formulated effected in the entire business. This was accomplished by the finish of the fiscal year 2000–01 by closure of the present industry of Machine Tools and Watches into ancillary corporations, which are, Company 5 Machine Tools Limited (Company 5MT), Company 5 Watches Limited (Company 5) and Company 5 Chinar Watches Limited. Company 5 Limited or "the parent company" consequently, including the Tractor Business (which has been maintained in the Holding Company) and the subsequent subsidiary units.

- Company 5 Machine Tools Limited (Company 5MT);
- Company 5 Watches Limited (Company 5);
- Company 5 Chinar Watches Limited (Company 5 Chinar);
- Company 5 (International) Limited (Company 5I);
- Company 5 Bearings Limited (Company 5B); and
- Praga Tools Limited.

Many internal as well as external measures were undertaken to cope up with the sickness of Company 5 watches. The unfeasible and debt divisions were shut down during the reorganization process. Government declared several rescue packages. The prevailing management of the company made best efforts to re-orient the organisation to emerging requirements. Yet, the company continues to wander.

**Company Profile**

Company 5, incorporated on 9th August 1999 as a fully owned subsidiary of Company 5 Limited came into operation from 1st April 2000. However, it has also been the initial business to establish watch production in India, long before it was incorporated as a separate entity. It
wa1962 with a technical collaboration with Messrs. Citizen Watch Company, Japan that Company 5 Limited, as a part of its diversification strategy started to produce watches. It manufactures Mechanical, Quartz, Analog and Digital Watches.

Company 5 has four production divisions, two at Bengaluru and Tumkur in Karnataka and one at Ranibagh, Uttaranchal. These mechanized divisions are maintained by a common marketing unit in Bengaluru. The entire manufacturing capability of every four divisions is around 7 million watches per year. Each and every production division are licensed with ISO 9001. Company 5 has employee strength of 3436, which include, 754 Supervisors and 2682 Non Supervisors.

The Watch Factory I and II at Bengaluru (WFB) produces mechanical and ADD (Automatic Day Date) watches. The total manpower in these locations is 762. The Specialized Watch Case Division at Bengaluru (SWCD) with only 175 employees manufactures specialized watch cases for the other manufacturing units.

While, the Watch Factory at Tumkur, produces quartz watches with manpower of 1262 whilst the Watch Factory at Ranibagh, manufactures mechanical watches, with a workforce is around 859 employees. The Watch promotion, Watch Directorate and other divisions have a compound strength of 378 employees.

The mandate of Company 5 is to focus on consumer service, dependability of supply and product excellence. With this objective in mind, throughout the years of existence, it has built up a widespread countrywide distribution association for all its goods. The company has an extensive marketing network spread all across the country.

**Strengths of Company 5**

Company 5 has been the principal Indian incorporated producers of watches. The Company’s considerable manufacturing capability for the majority of its goods facilitated it to obtain noteworthy economies of scale from its operations. During the early years of its existence, it established superior long-standing dealings with its clients and achieved an outstanding repute for the quality of its goods. The company has been acknowledged with a number of ISO 9000 series appreciations for the superiority of its goods.
Additionally, Company 5 enjoyed a dedicated domestic supply of raw material through long-standing provisions. Company 5 had the principal marketing and distribution set of connections in India. The trade and service network consisted of 4114 approved dealers, 79 wholesale dealers and 36 business show rooms stretched over 5 regions in India.

A group of specialized experts having wide-range knowledge in the watch industry in India was running Company 5. Company 5’s, administration team had been in the business, since, beginning and therefore, carried with it current information and rich knowledge, which was helpful for that era.

**Plant Infrastructure**

Company 5 has an approved facility of 6.8 million watches and an established capability of 7 million watches, as stated previously. Nevertheless, the business has been in use at less than 100% capacity due to the slowdown in the Indian watch industry since 2000. It manufactured just 2.4 million watches for the year 2000 – 01, which is just about one-third of the installed capacity.

**Quality Control**

All the units of Company 5 are ISO 9000 certified. The management ensures the upgradation and inspection of the method at expected time. The management established different phases of power points which are adhered to even now, according to the company.

**Product Profile**

Currently, according to the marketing team at Company 5, the company supply to all the strata’s of the watch market. They have an assortment of around 1500 range of watches, straddling the segment from lowest cost to premium segment watches. Though not very popular, it still carries a part of its legacy of past. The ET Brand Equity survey conducted by ORG-MARG ranked Company 5, 34 among the 100 most trusted brands in 2002. And among the top 10 durables in the survey, Company 5 was ranked 3 (though down from the No. 2 spot the previous year).
Indian Watch Market  It all started with Indian private players like Titan Industries, but afterwards led to an serious competition among foreign and Indian producers like Timex, Swatch, Longines, Rado, Fréderique Constant, Mont Blanc, Movado, Rolex and many others – in all sections of the markets.

Before the establishment of Company 5, India was exclusively reliant on imports to meet the domestic demand. Nonetheless in 1960’s, post origination of Company 5 in the wrist watch section the situation altered. This was during the pre-liberalization period when Company 5 remained as an important contestant in the wrist watch section in the Indian marketplace. In the post-liberalization period, where customers as well as markets saw a sea transformation, many watch producers made noteworthy inroads in the business and others are in the course of setting up themselves.

The retail segment which has just commenced to boom in India, has had its own influence on the watch market. Liberalisation of the country has compounded the circumstances even more. Since the early 1990’s, Indian consumers were depending a great deal on departmental stores and malls to acquire their requirements and desires. This has appeared as an advantage for watch producers and traders, who are now looking ahead to employ these innovative channels to contact the Indian lot. Watch producers are looking at an appropriate blend to market their goods starting from restricted retail outlets to exhibit sector in malls and reputed departmental stores.

Demand Analysis

Though in terms of huge volume, the penetration of watches is in fact the lowest in India as judged against to rest of the world. Annually, the size of the Indian watch market is estimated to be approximately forty to forty-five million pieces, presently. The organized segment supplies up to 30 percent of this market, while rest of the demand is provided by the unorganized grey segment. In terms of dollars, the expected annual market size is around USD 195 million. The average growth in the size of the market is lined up to be around 10 -15 percent per annum. Watches cost below Rs. 1,000 per unit comes to nearly 75 percent of total amount. There subsists an enormous prospect in the Indian rural market with a projected population of 760 million. The
low-end sector of the watch market has been seen to be increasing at over 10 per cent in an otherwise sluggish market. An informal study of the watch market discloses that it is divided on basis of numerous proportions such as price, uses and category of watches. The cost of the watches is a key purpose in the psyche of the customer. As a result, three sectors can be recognized here, that is low priced, medium priced, and high priced watches. The lower priced sector comprises of watches priced less than Rs.500; the medium price variety comprises of watches in the Rs.500 to Rs.1500 series and the high priced watches come in Rs.1500 above range. There are further higher classes as well such as the finest and extravagance range, but they attract only to a small group of the watch market in India. Nevertheless, customers, during the current period at least, have appeared exceptionally selective about the make and category of wrist watches they use. Their preferences have progressed over the time and have gone further than the sphere of durability to decide in relation to aesthetics and stylishness. As a result, it is the buyers market with massive amount of designs that have come into and swamped the market.

Quartz and analog watches report for around 80 percent of the demand, whereas mechanical watches contribute 17 percent and digital watches the remaining. Many consumers favor mechanical and automatic watches, whilst others favor quartz watches. Newer sections are also on the increase such as ladies watches, children’s watches and gent’s watches. Customers habitually support their fondness and buying choices on a range of aspects like price, durability, value, aesthetic appeal and brand name. A blend of all these points eventually shapes the customer’s buying judgment that converts into the purchase of a watch.

Prof. Edward Altman has built a new model that distils five key performance ratios into a single score called Z-Score, which gives investors a pretty good snapshot of a firm’s financial health.
Table 7.1.a: Z-Score values of Company 5 for the years 1999 to 2009

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<tr>
<td>WC</td>
<td>122.27</td>
<td>(42.92)</td>
<td>74.11</td>
<td>(813)</td>
<td>(931.7)</td>
<td>(856.3)</td>
<td>(1233.7)</td>
<td>(1487)</td>
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<td>TOTAL ASSETS</td>
<td>197.69</td>
<td>11.42</td>
<td>389.23</td>
<td>2161</td>
<td>2041.6</td>
<td>1130.3</td>
<td>917</td>
<td>769.2</td>
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<td>RETAINED EARNINGS</td>
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<td>EBIT</td>
<td>(188.36)</td>
<td>(286.36)</td>
<td>22.23</td>
<td>(732)</td>
<td>(34.5)</td>
<td>1140.5</td>
<td>581.5</td>
<td>640.1</td>
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<td>EQUITY</td>
<td>(167.64)</td>
<td>(423.6)</td>
<td>(11.50)</td>
<td>(5419.1)</td>
<td>(6182.4)</td>
<td>(8130.5)</td>
<td>(9599.1)</td>
<td>(11240.6)</td>
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<td>TOTAL LIABILITY</td>
<td>197.61</td>
<td>11.42</td>
<td>389.23</td>
<td>7638.3</td>
<td>8278.9</td>
<td>9326.2</td>
<td>10581.9</td>
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<td>NET SALES</td>
<td>290.41</td>
<td>199.12</td>
<td>570.9</td>
<td>235.4</td>
<td>218.4</td>
<td>368.8</td>
<td>151.4</td>
<td>135.2</td>
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<td>RATIOS</td>
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<td>WC/TA</td>
<td>0.617</td>
<td>(4.6)</td>
<td>0.19</td>
<td>((0.38)</td>
<td>(0.46)</td>
<td>(0.76)</td>
<td>(1.35)</td>
<td>(1.93)</td>
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<td>RE/TA</td>
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<tr>
<td>EBIT/TA</td>
<td>(0.95)</td>
<td>(25.04)</td>
<td>0.05</td>
<td>(0.056)</td>
<td>(0.33)</td>
<td>(0.017)</td>
<td>(1.008)</td>
<td>(0.63)</td>
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<td>EQUITY/TL</td>
<td>(0.85)</td>
<td>(37.07)</td>
<td>(0.076)</td>
<td>(0.297)</td>
<td>(0.746)</td>
<td>(0.871)</td>
<td>(0.907)</td>
<td>(0.930)</td>
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<td>SALES/TL</td>
<td>1.47</td>
<td>17.43</td>
<td>1.47</td>
<td>0.11</td>
<td>0.11</td>
<td>0.33</td>
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<td>Z SCORES</td>
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<td>X1</td>
<td>0.443</td>
<td>(3.323)</td>
<td>0.136</td>
<td>(0.269)</td>
<td>(0.327)</td>
<td>(0.543)</td>
<td>(0.96)</td>
<td>(1.385)</td>
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<td>X2</td>
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<td>X3</td>
<td>(2.96)</td>
<td>(77.81)</td>
<td>0.18</td>
<td>(1.05)</td>
<td>(0.053)</td>
<td>(3.13)</td>
<td>(1.97)</td>
<td>(2.59)</td>
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<td>X4</td>
<td>(0.356)</td>
<td>(15.57)</td>
<td>(0.03)</td>
<td>(0.12)</td>
<td>(0.31)</td>
<td>(0.37)</td>
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Testing the z scores we can see that all the years score is below 1.21 that means company is tending towards bankruptcy. In the year 2001, it lies between 1.21 to 2.90, that is, 1.756. which means the company has poor financial health. All in all we can say that company is financially sick even after receiving several bailout packages from Government.

**Sickness and Turnaround of Company 5**

As discussed earlier, at some point of time, Company 5 was the undisputed leader in the watch space in India. But since the past decade the company has entered a sick phase continues to
remain so. Of course, liberalization and the difficulty of a behemoth public sector to cope up with the changes in the market is one reason. But there are several other factors that added to the miseries of Company 5. These are external and internal causes.

Indian economy was in the clutches of closed government policies till the early ‘90s. This was the golden era not only for Company 5, but also for an array of public sector corporations. But the liberalisation of the economy opened the doors for much competition, primarily from the Indian private sector corporations. For example, Tata, which is probably the most trusted corporation in India, came up with their own brand – Titan. Until now, Company 5 which had been used to a protected turf suddenly found itself in the midst of mounting competition.

Company 5 had the overall market share of 26 percent through 1997-98. On the other hand, it plummeted to 14 percent in 2001-02. Out of this, Company 5 still had 70 percent market share of Mechanical watches through 1997-98, which improved to 94 percent in 2001-02. At the same time, the market itself shifted from the earlier mechanical concept towards newer technologies like quartz. Company 5, slow to respond to changes, performed poorly in quartz marketplace. It just had market share of 8 percent for five years in 1998-2002. As the value bend for mechanical watches kept declining there was no dynamic force from Company 5 to counter this.

There was a big prospect in the lower section of the market in 2001-2002. During 2000-01, approximately 15 million watches were sold at the lowest end of the market and of this barely around seven million were renowned. The vice-president, sales and marketing, Titan watches remarked that they understood what the customers in this section badly wanted was a brand name with which they may perhaps be connected with. Company 5 could have utilized this opportunity by introducing a product in the segment and by placing more endeavor on advertisement and supply of watches for this section.

Advertising is another area that deserves mention, as we talk about the fall of Company 5. Advertising as such contributes much towards building awareness as well as perceptions in consumers mind. During the year 2006, the promotion expenses were approximately Rs. 0.1 Crore as against Rs. 4.5 Crores in 2001. This analysis happened to more significant, when contrasted with expenses made by its competitor Titan. Titan tripled its expenses from Rs. 40
Crores in 2001 to Rs. 133 Crores in 2007. Whilst Titan employed major celebrities like Amir Khan, Kapil Dev and others for its promotions, Company 5 advertisements went almost absent from print and electronic media.

Even as the Indian consumer was being slowly embraced by the retail movement, Company 5 barely took cognizance into their stores nor took any big steps towards renewal of their existing stores. Compared to this, organisations like Titan understood the importance of retail outlets as marketing spaces for their watches, and more as important tools in the liberalized era. They invested in to their retail outlets across the nation as profit centres. However, they did not get enough support from the retail segment as well. To meet requirements of the quartz market, a market which Company 5 did not understand, the business outsourced the manufacture of various visual components like dial, cases and others. It obtained these parts in huge volume from outsourced business, while its own manufacturing capability of dials and cases continued underutilized at 34 percent and 47 percent correspondingly. This led to a flurry of problems. Firstly, most of these vendors were also quite less experienced and had less technical expertise. The selection of outsourcing vendors ignored all prescribed procedures including Central Vigilance Commission guidelines. Outsourcing also led spurious watches in the market like the various Chinese and other markets. Company 5 was unsuccessful to act right away and took fifteen months to take follow-up act in July 2002. Secondly, explanation for outsourcing once more was not supported on any cost-benefit analysis or study. Thirdly, the record involved in outsourcing agreement/transactions was also not crystal clear. The complete exercise from justification of outsourcing to choice of vendors and additional dealings lacked lucidity.

The impact of spurious / unauthentic market has been harsh on Company 5 Watches rather than any other competitor due to its high brand equity, originally. Outsourcing of manifestation parts and watches under Company 5 brand name with no sufficient confirmation was found to be a chief causal issue for the expansion of grey/spurious market for Company 5 watches. Erroneous market projections led to accumulation of supplies and also accrual of amount outstanding due to setting up Redistribution stockists (RDSs) sales lacking suitable order. The Company had to negotiate its leading role as manufacturer of high brand equity watches in relation to RDSs and had to settle down credit policy to its disadvantage.
Turnaround Strategy

During the year 1999, the Executive Director (ED) of Company 5, accepted a recovery plan to be executed through a progression of rigorous actions, together with growing efficiency, brand endorsement and dynamic marketing drive. The ED expected that the Public Sector Unit would turnaround. The reason being the company still had the best of the plants at all the positions to produce top-notch precision commodities. All that the company needed was to reactivate them and refurbish the image.

In a casual chat with a visiting group of correspondents from Ahmedabad, the ED said that the company has nobody but themselves to blame for falling down from 40 percent market share to eight per cent. This was due to the fact that the company did not care to brace themselves with liberalization.

A huge number of workforce, along with persons of general manager's level, had left the organisation to join the competitor, like Titan. Nevertheless, the company’s chief threat was to move towards from watch producers in the unorganized division and fake components and parts. The company has even discovered our trader’s participation in promotion of other brands, consequently receiving their permit cancelled.

Company 5 had developed an all-inclusive turnaround strategy which intended to profitably amplify its market share in key growth divisions and then regained as a chief in the Indian Watch business. The organisation had an objective to follow sustained expansion over the intermediate tenure by implementing an unrelenting marketing strategy.

Company 5 enjoyed a good pie which is 80% of the quartz analog watches division. It anticipated enhancing the share of these watches in its merchandise portfolio. It brought up its trade discounts on par with the industry averages. It emphasized on rationalizing the prices. The cutbacks in value were made easy by improvement in competence and using substitute finishing method. In this way Company 5 was trying to aggressively market its products. As the requirement for mid-priced range watches was more distinct than in the other sectors. Company 5 enlarged the magnitude of watches in this sector and had furthermore, initiated fresh watches to
provide to the lower segment. The yearly budget on advertising was enhanced and the franchise show rooms were beginning to get better.

In year 2006, the promotion expense was about Rs. 0.1 Crore as against Rs. 4.5 Crores. in 2001. This put a big problem on the responsiveness level of the consumers regarding Company 5 watches caused by lack of advertisement. This investigation became more significant, when contrasted with expenses made by its rivals Titan. Whereas, Titan tripled its expenses from Rs. 40 Crore in 2001 to Rs. 133 Crore in 2007. The subsequent sales service was enhanced. They gave a lot of importance on direct marketing. Direct contact with traders was established by arranging field sales representatives in all the key districts. Sales to various establishments and through Canteen Sales Depots (CSD) were also enlarged.

But these revival and restructuring plans showed little effects. Hence, in July 2002, the government formally initiated the process of divesting 74 per cent equity stake in four Company 5 subsidiaries - Company 5 Watches, Company 5 Machine Tools, Company 5 Chinar and Company 5 Bearings. With only a dozen firms confirming their Expression of Interests (EOI) in picking up stake in the subsidiaries, the disinvestment plan itself was delayed. The disinvestment plan was later put on hold in 2003 by the BJP government on the foundation of workforce rationalization, hiccups faced in relation to credit accessibility from financial organizations and suppliers, and liabilities of creditors. Employee strength was cut back in 2003. The business sold some land in Bengaluru to get imminent financial firmness. The government also injected some funds in 2002, but the PSU was still in the red. The company continued to suffer from severe domestic competition which it was unable to meet. “Company 5’s machinery is around 35 years old. Thus, reviving the company is not going to be easy and it also now depends on how much funds the government has to adhere to its commitment to revive PSUs rather than winding them up,” sources suggested. Company 5 started outsourcing the watch manufacturing to other institutions. Deferment of services from these institutions led to the crisis of preventing them to employ the Company 5’s symbol in their manufacturing. Company 5 also began to provide work for merchants with quite less experience and less technical proficiency. Outsourcing led imitation watches in the market. Company 5 was unsuccessful to act immediately and took almost fifteen months to take follow-up action.
In spite of all efforts, restructuring in 1999 as well as the disinvestment efforts in 2002, the company continued to reel. During recent years, Company 5 suffered from the high operating expenses and higher debts. The company reported Rs 113 crore in losses on revenues of Rs 931 crore in 2005-06. The government, on its part, has already pumped in Rs 335 crore for a revival plan for the bearings and Praga tools division. In May, 2006, the Board for Reconstruction of Public Sector Enterprises approved a revival package of Rs 835 crore. The holding company Company 5 and five of its subsidiaries got separate revival packages.

Later, the Board for Industrial and Financial Reconstruction (BIFR) vide Order dated June 13, 2008, sanctioned the Rehabilitation Scheme of Company 5 Machine Tools Ltd, the wholly owned subsidiary of Company 5 Ltd under Sections 19(3) and 18(4) of SICA, for immediate implementation. The Rehabilitation Scheme based on the Revival Plan of Company 5 Machine Tools Ltd approved by the Government of India in March 2007 envisaged infusion of funds in the form of Equity and Preference Shares Conversion of Government of India Loans into Equity and waiver of Interest on Government of India Loan. The Rehabilitation Scheme also envisaged various concessions and reliefs from various stakeholders like Banks, Creditors, Investors, statutory authorities etc. apart from the Merger of Praga Tools Ltd, Hyderabad, another Subsidiary of Company 5 Ltd with this Company effective April 01, 2007.

An amount was received by Company 5 Machine to the tune of Rs.24245 lakhs towards Equity Share Capital and Rs.44300 lakhs towards Preference Share Capital from Government of India under the revival plan. As of July, 2009, revival packages to the tune of Rs.880.80 crore had already been sanctioned. The balance amount would be sanctioned by 2011-12. There was a package of Rs.51.37 crore for Company 5 Bearings Ltd. and of Rs.214.71 crore for Praga Tools Ltd. The Sanctioned Revival Scheme for Company 5 Bearings Ltd. is to be completed by 2010-11 and while it has already been completed for Praga Tools Ltd. For rest of the loss making subsidiary organisations, final decision for their revival is yet to be taken.

**Reasons for further failure**

Company 5 felt the need for mechanical watches to go down, mainly because it focused extra on opposition from Quartz, instead of their own potency, that is, mechanical watches. In the global market, still Mechanical watches embrace a good place. A current study showed that the Swiss
watch businesses exports of mechanical watches records for two-third of their total export worth. Whereas the Swiss watch industry did not acknowledge quartz technology, they were able to make their point with mechanical watches in the watch business.

Company 5 had made more promotions to let its consumers know about what they are manufacturing. Misjudging the influence of advertisement was one of the prime factors for Company 5 to be beaten by the market share. Also, Company 5 did not do sufficient research on various novel ways of advertisement. Company 5 scarcely looked into their shops or took any big steps towards renewal of their shops. While Titan kept spending into transformation of its shops, similar hard work was missing from Company 5. Company 5 could have spent a little more on strengthening and modernizing the retail shops. Given the huge distribution network the business had, it could have done it in stages. Select Company 5 shops were barely seen and this was also one of the most important reasons for further fall in sales.

Some of the resolutions prepared by Company 5 were unreasonable knowing the manufacturing ability of the business itself. To meet the needs of the quartz market, the business outsourced from Tennmax India Limited the manufacture of various visual parts like the dial, cases and others. It got bulky parts in huge volume from this organization, whilst its own manufacturing capability of dials and cases continued to be underutilized at 34 percent and 47 percent correspondingly. Company 5 needed to be more mature towards assessment made for outsourcing of different parts, outsourcing of the watch production and the way they chose the sellers. It could have managed the deferment of services more realistically to stop the unauthentic Company 5 watches in the market place.

The Road to Future

In 2010 the All India Company 5 Officers’ Federation made a plea to Union Minister S.M. Krishna for a Rs 1,000-crore revival package for Company 5 in the coming Union Budget. It also demanded steps to merge the factory with some other public sector undertaking run by the Defence Ministry. Krishna has accepted the request and has agreed to discuss it with the Prime Minister. The package would comprise fresh capital infusion, clearing of salary dues and revision of wages. To restart production on a massive scale, there are suggestions to get orders from defence organisations and railways by relaxing the tender process.
On a concluding note, there is still a long way to go for Company 5 as well as Company 5 Watches. Restructuring and government help is just one part of the picture, which is compounded by internal woes of not being able to understand the market conditions and changed consumer perceptions. And as Company 5 was grappling with these, the Indian watch market itself is a changed place, probably one which the old Company 5 would now never recognize. The landscape is filled with domestic players like Titan, Sonata etc and international majors fitting in to every price point and size. Company 5 has still a long way to go, if it really has to recover.

Following are few more things that Company 5 could have done which include,

1. Spinning off an ancillary for quartz segment, so, as to target the lower-end markets. This would have enabled Company 5 to concentrate on its mechanical watches and also focus on quality, class and elegant customers.

2. Modernization was the most significant omitted factor from Company 5’s culture and strategy all throughout its existence. It could have innovated different ways of advertisement (celebrities, price cut, supporting events etc.), marketing (modernize stores, making supply channel s more effective etc.), getting consumer feedback, implement the shifting market conditions etc.

3. Company 5 could have spent on research and development or employed some good fashion creators to plan new form of watches. With consumers looking for new variants of watches after the year 2000, this could have enhanced their market share.

4. Company 5 could have endorsed a variety watches for diverse moods. For Example formal, casual and the like. This would have resulted to sales of more than one watch to the same customer.

5. Company 5 could have worked together with some of the good dealers of various brands who have huge distribution network and good retails display area to show case and vend some recently launch forms.
6. Company 5 could have stressed on Mechanical watches only and could have offered a superior competition to Titan by advertising over the potency of mechanical watches. Some of the aspects could have been as follows:

a. Quartz watches are as dependable as mechanical, but the battery is a problem. You cannot calculate the life of the battery.

b. The component to be replaced is available without any difficulty for mechanical watches, but for ancient quartz watches, the battery would have been outdated.

c. Mechanical watches last for a greater period of time if they are serviced on time, while quartz watches have smaller life for the reason that of the limited existence of the electronic circuitry. Mechanical watches have superior resale worth. So, Company 5 could have made it a point to facilitate, that if one wants quality, class, accuracy and historical value, need to go for Mechanical watches.

7. This evidently illustrates that there was greater possibility for optimization of the manufacturing capability. Company 5 could have used its on hand manufacturing competence to meet the marketplace supplies. As it was lagging in the manufacturing originally, manufacturing on its own could have resulted in proficient production. This would have reduced the operating expenditure also. It does not make good judgment to underutilize own manufacturing potential and go for outsourcing of the identical component.

Sources: Annual reports, Business reports, Newspapers, Prowess database and interactions with the company personnel.

Note: The name of the company has been masked for confidentiality purposes.
7.2. Case Study 6: Unsuccessful turnaround of Public Sector - Company 6

The Indian Telecom business is the third leading and fastest emergent telecom industry in the globe following China and USA. With an expansion rate of 37.72%, in 2009, Indian telecom industry has the utmost growth rate in the world. According to the Economic Survey of 2008-09, the Indian telecom network had 414 million connections in February 2009, is the third largest in the world, and is the second largest wireless network in the world. The number of telephone subscribers reached 300 million by March 2009 with wireless lines reaching 261 million. The key drivers of this development comprise enormous growth in Company initiatives announced by service providers and a rise in buyer demand on the back of crashing tariffs and handset prices.

Innovative technological improvement and assertive demands have redesigned the international telecom business these days. Consumers are now at their pinnacle on the preference of service providers and the different type of services they aspire. To stay viable Company 6, telecom business have to alter their functioning, re-engineer production methods, and set up technology design that can contain industry and rigid demands effortlessly. Broadband and wireless networks, and also the probable union of a variety of know-how and global standards will propel the telecom market development in India in the upcoming days.

Company 6, a Karnataka based company that manufactures a wide range of communication equipments was incorporated in the year 1950 as a Public Sector Undertaking. The Central
Government holds over ninety percent of the company’s equity while individuals have a nominal share of about five percent. The registered office of Company 6 is at Bengaluru, the company has six manufacturing plants (having ISO accreditation) spread over Bengaluru(2), Mankapur and Rae Bareli (Uttar Pradesh), Srinagar and Palakkad (Kerala). In 2002, the flagship of the Indian telecom sector, Company 6 was on the verge of being handed over to the Board for Industrial and Financial Reconstruction (BIFR), an autonomous body that oversees sick industrial units. The sick public sector telecom behemoth, Company 6 has charted a new course to keep itself afloat but its fortunes were tied to a Rs. 3.5 billion ($78million) in May 2004 to bailout package from the Central Government. Referring to this development the then, Company 6 chairman had stated that the company was eagerly waiting for the grant in time so that we can tide over the present crisis and prevent Company 6 from going to BIFR for being officially declared sick. Based on the existing market circumstances and potential projection, Company 6 has geared up with a company sketch for subsequent five years. Through an earnings of nearly Rs. 7000 crore anticipated, the business had set a sales of Rs. 4850 crore to be attained during the year 2008-2009. Company 6 will persist to have a key job to undertake a domestically developed producer in increasing the nation’s telecom growth. However, it needs to be seen how the telecom behemoth Company 6 will tide over the current crisis.

**Indian Telecommunication Industry- An Industry Note**

The history of Indian Telecommunications began in the year 1851, while the initial equipped land lines was set up by the government near Calcutta, which was the throne of British power. In India, the telephone services were launched in 1881. In 1883 the postal department was combined with telephone services. Indian Radio Telegraph Company (IRT) was started in 1923. Post Indian independence in 1947, all the overseas telecommunication businesses were publicly owned to form the Posts, Telephone and Telegraph (PTT), a supremacy controlled by the Government’s Ministry of Communications. Telecom segment was believed as a tactical service and the government thought it most excellent to get it under State’s purview. The initial wind of transformation in telecommunications sector commenced to flow in 1980’s, when the private segment was allowed in telecommunications equipment production. In 1985, Department of Telecommunications (DOT) was set up. It was a controlled supplier of domestic and long-distance service that would be its own controller, which would function separately from the
postal system. In 1986, Videsh Sanchar Limited (VSNL) for global telecommunications and Mahanagar Telephone Nigam Limited (MTNL) for service in urban areas were set up, which was wholly government-owned industries.

Due to the opening up of the Indian economy in the 1990’s the telecommunications sector befitted to a large extent. The telecom revolution in numerous other countries, led Indian policy makers to begin a change process at last resulting in opening up of telecom services sector for the private sector, which resulted in enhanced quality of service and lower tariffs. In 1994, National Telecom Policy (NTP) attempted to give a all-inclusive roadmap for the Indian telecommunications sector. In 1997, Telecom Regulatory Authority of India (TRAI) was formed. TRAI was created to operate as a controller to make possible the development of the telecom sector. New National Telecom Policy was accepted in 1999 and cellular services were in addition commenced in the similar year. Additional modifications in the regulatory scheme took place with the TRAI Act of 2000 that intended at reinstating practical lucidity and improving authoritarian excellence. TRAI outlines policies and can charge fees and charges for telecom services as considered necessary. The regulatory board also has a separate fund known as the TRAI general fund to aid its operations. To reasonably deliver judgment in any disagreement among licensor and licensee, among service providers, among service provider and a group of consumers, a separate disagreement resolution body was set up named Telecom Disputes Settlement and Appellate Tribunal (TDSAT).

After a current licensing exercise in 2002, there existed rivalry in most service regions. Nevertheless, the market was still subjugated by the serving. In December 2002, the private sector supplied around 10 million handsets in fixed, WLL (Wireless Local Loop) and cellular lines compared to 0.88 million cellular lines in March 1998 (DoT Annual Report, 2002). 72% of the entire private outlay in telecom has been in cellular mobile services chased by 22% in basic services. Broadband Policy was publicized on 14th October 2004. In this procedure, broadband had been understood as an "always-on" data relation sustaining interactive services together with internet access with bare minimum download speed of 256 kbps per subscriber. The Telecommunications (Broadcasting and Cable Services) Interconnection Regulation 2004 was commenced on 10th December 2004.
The total number of telephones enlarged from 76.53 million by the end of March 2004 to 413.85 million by the end of February 2009. Around 113.36 million telephones, at the speed of more than 14 million subscribers each month, were added throughout the 11 months of 2008-2009. Total tele-density improved from 12.7% in March 2006 to 35.65% in February 2009, whilst rural tele-density achieved 13.81% in January 2009, the metropolitan tele density shot up to 83.66%.

### Graph 7.1.b: Growth of telephones over the years

<table>
<thead>
<tr>
<th></th>
<th>March 06</th>
<th>March 07</th>
<th>March 08</th>
<th>Feb. 09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed lines</td>
<td>40.23</td>
<td>40.77</td>
<td>39.41</td>
<td>37.73</td>
</tr>
<tr>
<td>CDMA</td>
<td>32.67</td>
<td>44.62</td>
<td>68.38</td>
<td>92.14</td>
</tr>
<tr>
<td>GSM</td>
<td>69.19</td>
<td>120.47</td>
<td>192.70</td>
<td>283.98</td>
</tr>
<tr>
<td>Wireless (CDMA &amp; GSM)</td>
<td>101.86</td>
<td>165.09</td>
<td>261.08</td>
<td>376.12</td>
</tr>
<tr>
<td>Gross Total</td>
<td>142.09</td>
<td>205.86</td>
<td>300.49</td>
<td>413.85</td>
</tr>
<tr>
<td>Annual growth (%)</td>
<td>44</td>
<td>45</td>
<td>46</td>
<td>37.72</td>
</tr>
</tbody>
</table>

*Source: Department of Telecommunications point to point*

### Company Profile

India’s initial Public Sector Unit (PSU) – Company 6 was started in 1948. The Union government owns 92.87% of Company 6 with Karnataka owning 0.11%. The rest is held by ordinary shareholders. Company 6 has six manufacturing plants spread across Bengaluru,
Mankapur, Rae Bareli, Naini, Srinagar and Palakkad. Since, then as a revolutionary endeavor in the area of telecommunications, it has supplied to 50 percent of the current countrywide telecom network. With modern production amenities extended across six locations and a nationwide arrangement of marketing/service channels, the organization presents a whole variety of telecom products and total solutions encompassing the complete gamut of Switching, Transmission, Access and Subscriber Premises equipment.

The death knell for Company 6 was echoed in 1991 as soon as the Manmohan Singh Government permitted far reaching advancement and liberalization of the Indian economy, discarding out the “Licence Raj” and the bureaucratic management system. Surprisingly the floodgates of efforts were unlocked and free entry permitted into almost all segments of Indian industry with a little exceptions. Company 6 found itself contending with new mean and lean company’s from all over.

Thereby, the inflated balloon busted for Company 6 in the mid 1990’s. Revenues fell considerably. Company 6’s goods found stiff opposition from private players. The labor forces turn out to be incompetent and uncontrollable and losses swallow up the organization. Year after year Company 6 stumbled from one startling disastrous loss to another. Succeeding governments and managements attempted to bail it out of danger but to no reward. The depression had sunk in so deep that only a master surgeon could possibly rid the company of its malignancy and such a surgeon was nowhere to be seen.

Company 6 united the union of world class sellers of Global System for Mobile (GSM) know-how with the installation of mobile equipment production amenities at its Mankapur and Rae Bareli Plants in 2005-06. Thus, the new age of home-grown mobile equipment production started in the country. These two amenities provide greater than nine million lines per year to both home as well as export markets.

The businesses in 2007-08 strengthened its division into Information and Communication Technology (ICT) to sharpen up its aggressive rim in the convergence marketplace by using its thriving telecom proficiency and vast communications. Network Management Systems, Encryption and Networking Solutions for Internet Connectivity are few of the key programs
initiated by the business. Sheltered interactions are the company's specialty with an established
evidence of engineering and strategic connectivity networks for India's armed forces. Far-reaching domestic research and development work is dedicated towards expert quarters of Encryption, NMS, IT and get goods to supply absolute custom-made solutions to a variety of clients. The research and development centers are located at Bengaluru, Naini and Mankapur. Company 6 has an employee base of 12,745 as of 2008-2009.

**Sickness and Turnaround at Company 6**

Previously, in a sheltered structure, there was reserved allocation for public sector telecom equipment producers. Any prerequisite from the Department of Telecommunications (DoT) had to be primarily positioned with a public sector unit. However, still in tendering there was an unambiguous favoritism towards public sector units. When the sector was unlocked, Company 6 found it intricate to challenge the multinational organisations. In the year 2000 chairman and managing director of Company 6, claimed that the multinational organisations resorted to disposal, and voracious bids in the Indian market. Company 6, was into sickness since 2001, and the chairman and managing director of BSNL then said that the Company 6 has been surviving only on BSNL and MTNL work. Thus, it was difficult for Company 6 to get significant orders from the private players. During the year 2007, Company 6 executed a Rs. 328 crore order for 2.1 Million lines of wireless local loop. It also has to complete an order for five million lines of GSM from BSNL. However, the same Company 6 officials complained that debtors, including BSNL and MTNL, owe Company 6 Rs. 291.95 crore for the past three years.

The public sector Company 6 is in a fatal financial crisis that can be studied see from the Graph 7.2b. It is paradoxical that Company 6, which was identical with India's development in the telecom sector, ought to be in such a remorseful state at a time while the information and technology industry is all set to take off. More tormenting reality is that Company 6 has a huge workforce of 24,500 employees, redundant in its plants which keep waiting for orders. And even when orders were offered, there had been incredible hindrance in payments. Now there are information of the 'sick' Company 6 being submitted to the Government's Board for Industrial and Financial Restructuring.

*Table 7.2 b: Profit after Tax (PAT) and Networth of Company 6*
<table>
<thead>
<tr>
<th>Year</th>
<th>Profit after Tax</th>
<th>Networth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>45.79</td>
<td>264.65</td>
</tr>
<tr>
<td>2000-01</td>
<td>27.55</td>
<td>283.62</td>
</tr>
<tr>
<td>2001-02</td>
<td>21.58</td>
<td>397.58</td>
</tr>
<tr>
<td>2002-03</td>
<td>-378.87</td>
<td>202.68</td>
</tr>
<tr>
<td>2003-04</td>
<td>-705.83</td>
<td>-526.76</td>
</tr>
<tr>
<td>2004-05</td>
<td>-309.82</td>
<td>-550.72</td>
</tr>
<tr>
<td>2005-06</td>
<td>-428.76</td>
<td>1646.5</td>
</tr>
<tr>
<td>2006-07</td>
<td>-405.26</td>
<td>1077.9</td>
</tr>
<tr>
<td>2007-08</td>
<td>-358.38</td>
<td>686.22</td>
</tr>
<tr>
<td>2008-09</td>
<td>-668.18</td>
<td>-4.06</td>
</tr>
</tbody>
</table>

**Graph 7.2b: Profit after Tax (PAT) and Networth of Company 6**
Profit after tax as we see is declining. The company sustained enormous losses of Rs. 705 crore during the year 2003-04 largely due to poor sales performance and high expenses. The loss during the year 2004-05 came downward to Rs. 309.82 crore chiefly on account of receipt of grant in support from Government of India. The losses of Rs. 428.55 crore and Rs. 405.70 crore correspondingly during 2005-06 and 2006-07 were due to rise in cost of sales. The company adopted a turnaround strategy through joint ventures but it has failed as we see in the years of recovery 2005, 2006, 2007 and it started declining gradually till the year 2009 which indicates the turnaround strategy failed which pushed the firm in to financial distress. When we see the networth it sharply increased in 2005-2006. The major factor for this increase is due to increase in revaluation reserves that added to the net worth. But there after it went to negative territory due to depletion in the retained earnings that is the reserves. The company was unable to plough back its profits.

**Z-SCORE** is one test conducted to test the solvency position of the firm. Since each ratio calculated are unique and tells different story about firm’s financial health Z-score appears to be a model that gives a good snap shot of the whole firm.

**Table 7.3 b: Z-score values of Company 6**

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
<td>0.537</td>
<td>0.542</td>
<td>0.547</td>
<td>0.532</td>
<td>0.429</td>
<td>0.557</td>
<td>0.148</td>
<td>0.027</td>
<td>0.06</td>
<td>(0.167 8)</td>
</tr>
<tr>
<td>X2</td>
<td>0.113</td>
<td>0.113</td>
<td>0.102</td>
<td>0.096</td>
<td>(0.629)</td>
<td>(0.893)</td>
<td>(0.372)</td>
<td>(0.611)</td>
<td>0.697</td>
<td>(1.212)</td>
</tr>
<tr>
<td>X3</td>
<td>0.419</td>
<td>0.183</td>
<td>0.236</td>
<td>(0.503)</td>
<td>(1.559)</td>
<td>0.379</td>
<td>(0.093)</td>
<td>(0.099)</td>
<td>(0.027)</td>
<td>(0.521)</td>
</tr>
<tr>
<td>X4</td>
<td>0.027</td>
<td>0.252</td>
<td>0.022</td>
<td>0.022</td>
<td>0.0298</td>
<td>0.112</td>
<td>0.033</td>
<td>0.042</td>
<td>0.041</td>
<td>0.057</td>
</tr>
<tr>
<td>X5</td>
<td>1.420</td>
<td>1.34</td>
<td>1.318</td>
<td>1.061</td>
<td>0.972</td>
<td>1.635</td>
<td>0.464</td>
<td>0.645</td>
<td>0.516</td>
<td>0.854</td>
</tr>
<tr>
<td>Z-score</td>
<td>2.516</td>
<td>2.43</td>
<td>2.22</td>
<td>1.208</td>
<td>(0.75)</td>
<td>1.79</td>
<td>0.18</td>
<td>0.004</td>
<td>1.287</td>
<td>(0.482)</td>
</tr>
</tbody>
</table>

**Graph 7.3.b: Z-score values of Company 6**
When we look at the Z-score for 10 years from the years of 2000-2003, the score is between 1.21-2.90, which gave the warning signals that the firm suffers from poor financial health. However the firm did adopt a turnaround strategy by entering in to joint ventures which improved Z-score substantially in 2005 and 2008 but its turnaround strategy failed which made the Z-score still fall in the years of 2004-2009 which in turn pushed the firm to a negative position on of Z-score.

Therefore we conclude that the firm is tending towards bankruptcy since the value in 2009 is below 1.21 and indicates a negative position.

**Sickness at Company 6**

Nevertheless the business has confirmed its maximum ever sales proceeds of Rs 2144.20 crore in the year 2000-01, the net profit plunged to Rs 27.55 crore from Rs 45.79 crore in 1999-2000. The business was encountering remarkable price stress and it was the major cause for the collapse in Telecom - Equipment business proceeds. Furthermore the execution of the pay amendment has also added up to lesser earnings. The pricing demands on switches of Company 6's chief product line, had affected to the tune of Rs 250 crore while pay amendment had lead to a load of Rs 7.4 crores each month. To prevail over the price pressure and competition, the business planned a tactical move from producing to supplying value-added services to come out as a complete solution supplier in the upcoming years.
The business initiated ‘mission sphoorti’ in which it considered faster opening and execution of innovative technologies. The business in which the number of workforce in 2000 was 21,000 also planned to trim down 6000 to 7000 staff in the subsequent three to five years to create a worldwide viable organization. The sales and production of the business have reduced by 33.45 percent and 32.91 percent correspondingly contrasted to year 2000. Still it was a complicated year for Company 6 to tackle with shortage of working capital and anticipated requirements primarily GSM (Global system for Mobile) totaling up to Rs. 2600 Crores. Not showing up in 2000-01, Company 6 has reached to a decline in net loss as evaluated against the earlier year. The business earlier had immense working capital troubles.

Collections from the Department of Telecommunications (DoT) took a long period and affected the cash flows of the business. Company 6 Limited has recorded a fall of 17.96 % in sale proceeds at Rs. 378.82 crores for the quarter ended September 30, 2001 starting at Rs. 461.75 crores when compared with the identical quarter of the previous fiscal year. There was also a decline in the net profit by 14.24 per cent. The bottom-line of the organization was adversely affected due to a high employee cost which was a drain on the company. The former chairman and managing director of BSNL in 2001, said that Company 6 has been unable to get significant orders from the private players and no financial package will help Company 6 unless they build their own strength to survive independently.

In its entire history there was not a single product developed by the Company 6, was productionised and deployed in the Indian Telecom network. The DOT went on importing generations after generations of technologies from abroad and foisted them on the Company 6. So, if the Company 6 fails it is not due to its bad work but because of the imposition from outside. The bad days for Company 6 started when the production of telecom equipment was progressively demonopolised. But Company 6 is a state-owned company. There is a large constituency for preserving the dying state-owned organisations under fierce competition from private sector. Then socialism prevailed.

One third of the orders that the DoT/BSNL would place for any type of equipment would go to the Company 6, not at the price it quoted but at the lowest price that competition gave to the DoT. This lowest price had come to mean losses for the Company 6 as its production costs are
very high, because it did not have a huge work force which could not be utilized for new technology equipment nor could they be retired. The DoT had to give advances money on the reservation orders it was placing with the Company 6 because the company did not have any working capital to buy the components and the sub-systems. Now it appears that the governments of the foreign organisations which are deprived of the one third of the total orders because of the reservation made in favor of the Company 6 pressurized the Government of India to withdraw the order reserving any quota for the Company 6. So this spells further death to the Company 6.

The home-grown telecom equipment market is under the control of global/international telecom equipment players. This is basically due to the nonexistence of domestic player in switching and other high-end equipment sections. Nonetheless, after all this, the truth remains that global organisations such as Alcatel, Nortel, Ericsson and others manage the switching and transmission devices market which account for around 46 percent of the entire domestic telecom equipment market. In the days to come, a considerable fraction of the business is going to come from private companies. HFCL is one of the foremost telecom equipment producers and turnkey solution supplier. The organization is involved in the business of production of transmission and access equipment.

From the beginning, Company 6 had no choice as to what development it should undertake; what equipment it should produce; and with whom it could sign MOU for technology. All these were decided by engineers in the DOT itself. Its pricing was cost plus and allowed an amount of profit. There was therefore no incentive for it’s to develop knowledge i.e., intellectual property or improve efficiency by cutting price and improving quality. It was the only source of equipment supply to the DOT. It made profits because its pricing was so designed as to make it profitable. India is among the world’s least industrially developed telecommunications services, regardless of its size. The nation has been experiencing decades of monetary protectionism and nationalized business. For a longtime Indians had to wait for quite a number of years to get a telephone connection and it seems that at present the telecom infrastructure states to be way behind other developing countries. However, this is all placed to alter in the years to come. Liberalization of the telecom markets in India is gathering momentum, motivated by the striking
expansion in the software business. This also implies that the upcoming prospect lies in front for the telecom industry.

In the year 2002-2003 there was a change in the leadership of the company. In the same year the Board approved the proposal for amendment to MOA (Memorandum of Association) of Company 6 for enhancement of Authorized share capital from Rs.100crs to Rs.250 crores by issue of preference shares under private placement. The company tied up with Texas to develop IP Phones and also forayed into the international long distance segment. It was in this year the company designs and develops the first ever indigenous web-enabled smart connecting call centre. The public sector telecom foremost Company 6 Limited, facing a huge loss of Rs 352 crore for the financial year 2002-03, appeared to be in a fiscal mess forcing the business to postpone salary costs for its 23,000 staff. A letter issued by the AGM (Finance) said that due to monetary trouble being faced by the business it has decided that the salary for the month of April will be paid on May 10, 2003.

Nonetheless a lucid portrait on the cause leading to the enormous loss was yet to materialize; the organizations union held that ‘window dressing’ of the financial records in the earlier period could have contributed to the state of affairs of the company. The Company 6 Employees Union, the lone trade union in the business, has insisted that the government should order an enquiry into the failure faced by the business. The Union official said that the enquiry should also be intended at finding out the amount to which the guidelines and measures of the government’s ministry of communications, BSNL and MTNL towards Company 6 on the one hand and the shortcomings of or insufficiency in Company 6’s in-house performance and the incompetence in its working scheme if any, on the other hand they are accountable for this massive failure and after fixing accountability punishing rightfully those accountable for it.

However, it now faces stiff competition from international organisations such as Huawei Technologies Co. Ltd (China) and ZTE Corp., (China) which earned revenues of $197 million and $577 million, respectively, for 2006-07 from Indian customers. With the network needs escalating rapidly across the country, both private and state-owned operators are turning to the likes of Huawei and ZTE who ensure faster roll-out than Company 6, said that a stock analyst at Sushil Finance Private Limited. Company 6 which has been sick, was looking for a new Rs.
2,000 crore government aid in 2007. The funds being sought after to wipe out accumulated losses of Rs. 2,225 crore and to attain working capital for telecom equipment manufacturing. According to a company official, who does not wish to be named, a working group has been set up by the centre to finalize the package. Any delay in the approval of the revival package will affect our ongoing projects. We have orders worth Rs. 2,800 crore on hand, but insufficient working capital, claimed the Company 6 official. The loss making company has set a sales target of Rs. 4,770 crore for fiscal year 2007-08, which is 150 percent extra to what it was sold last year. But all the way through September, Company 6 has accomplished the sales of just Rs.800 crore, but inadequate working capital, claimed the Company 6 official. As per the views of the business auditors, Company 6’s net worth had totally eroded by March 2009, owing to the losses. The business attempted to a great extent to discard dead weight. Thousands of workforces were sent out under a Voluntary Retirement Scheme (VRS). At last around 13,000 workforces were still on the company’s roll. The business had been confirmed as an ailing entity, thus the most disgraceful drop for the telecom major.

Company 6’s strategy for revival was to seize the opportunities in various segments in this era of convergence, widen the customer base, and generate revenue by gainfully exploiting the available infrastructure, where, the business is set to bring out, GSM networks, originally providing to 9 million telephone lines, in the west and south zones of India. The business has go into an MOU with Huawei, China for production of Next Generation Network based on Internet Protocol Trunk Automatic Exchange and with SEM India for Asymmetric Digital Subscriber Line and Customer Premises Equipment Modems at Palakkad. The organisations Strategic alliances with Technology Partners will aim at offering solutions using leading technologies in a cost competitive manner. Company 6 is the foremost Indian Company to attain GPON (Gigabit Passive optical Network) Technology based FTTP (Fibre to the Premises) products for meeting not only the indigenous needs but also for providing for exports. Teaming Agreement has been signed with C-DAC to tackle mobile communication infrastructure for protection services. The association with technology and industry associates will be win-win situation and extend to developing Company 6 as a hub for manufacture, software development and IT services.

The Company’s research and development has profitably developed encryptors for various purpose for armed forces such as satellite communication, bulk encryptor for El media, Fax
Encryptor for paramilitary forces, Ruggedized Bulk Encryptor for Mobile Application for Army and SDH encryptors for broadband purpose. This would rejuvenate its promotion efforts as well.

The business had policies for starting the next generation data center with top-notch services and an projected investment of around Rs. 400 Crore, anticipated to be ready this year, the services presented by the center will comprise co-location services, Hosting Services and Managed IT services. This would enable continuous growth through Effective Quality system, Time and Cost consciousness, Enhanced value addition, Empowered Human Resources Teamwork, Innovation, Continuous improvement, Mutual respect, Transparency and Shared values. Company 6’s recovery plan visualizes reorganization and enhancement of production infrastructure and structuring a solutions and services company and diversification with spotlight on IT and telecom software and sales overseas.

**Turnaround Strategies**

In the year 2003 during discussions, the association of Company 6 promised that it will stand for the interests and growth of the company. The Managing Director made it clear that the company is passing through a very critical stage and we have to ensure the bottom line of the company is improved. The meeting between the association and Chief Managing Director(CMD) took place in the background of the crisis in the company which has even led to the talk of wage-freeze, reduction in staff strength, reduction of retirement age etc. Though no decision has been taken on all these issues, the association has raised issues regarding anomalies in pay revision, leave privileges etc during their discussions with the CMD.

Fascinatingly, Company 6 had not restrained itself to the home-grown marketplace. It has produced its existence in the international market as well. It has been aiming potential nations of South East Asia, Africa and Latin America. Exports reached Rs 150 crore in 2004. One of the reasons to be for the revival has been the attitude of the administration. Many in the company understood that Company 6 was a gigantic giant, excessively staffed and incapable to make immediate moves in a business that requires technological pace. Furthermore, industry experts highlighted that it was the crumpling of the existing business makeup that led to Company 6's misery.
In 2005 Company 6 has shed off its complacency, realized some significant plans, and made some strategic shift. The business had successfully accomplished the Optic Fibre System (SDH) equipment plan. It has also enlarged the production capacity at the Bengaluru and Rae Bareli units. In an attempt to revitalize telecom equipment producer Company 6, the Department of Telecommunications (DoT) in 2006 enforced Mahanagar Telephone Nigam Ltd (MTNL) to give approval for broadband and GSM to it. Company 6 is a politically susceptible public sector unit, as it has a huge manufacturing division in Rai Bareli.

When Company 6 was not able to deliver in two years, MTNL cancelled the orders for broadband. However, MTNL has suffered huge reverses in terms of loss of potential subscriber base. MTNL has a waiting list of 33,000 for broadband connections in Mumbai. In 2006, DoT had forced MTNL to give an order of 500,000 broadband connections. Till now, COMPANY 6 has supplied only 40,000 connections. Consequently, MTNL cancelled the order.

**Reasons for further failure**

Company 6 in 2006-07 sought a fresh Rs2, 000 crore government bailout in 2006-07. The resources are being required to clear out accrued losses of Rs2, 225 crore and to acquire working capital for telecom equipment producer. As per the company official who did not wish to be named, a board has been started by the centre to confirm the package. The official claimed the new bailout would help make Company 6 independent of projects from public sector telecom operators, Bharat Sanchar Nigam Ltd (BSNL) and Mahanagar Telephone Nigam Ltd (MTNL), which account for more than 80% of Company 6’s total orders.

The new bailout claim comes in 2007 just three years after the Union government gave Rs1,025 crore in financial support to Company 6. The government had allocated Rs200 crore in equity, Rs458 crore for a voluntary retirement scheme, Rs50 crore for capital expenditure, Rs93 crore to clear provident fund dues, and the rest as working capital. Company 6’s losses were at Rs.405 crore on sales of Rs1,818 during 2006-07, when it set off Rs153 crore towards duties and taxes.

Commenting on earlier attempts by the government to help revive Company 6, one of the company official said that the aid could’ve been leveraged better. It worked well only in short-term revival, but not in the long run. Unless the new financial aid comes attached with
competitions on how it is utilized. He was afraid this, too, may go up in smoke. In the year 2007-2008, Company 6 wanted to turnaround around and the following strategies were adopted by the company. Company 6, which used to have 24,500 employees a decade ago, has 13,415 through March 2008, most of them leaving through Voluntary Retirement Schemes (VRS). The company had adopted different cost cutback actions in relation to employee related benefits, which were initiated during 2002-03 have been persistent in the year 2007-08 also, with the assistance and proficient support of the Unions and Officers' organization.

Throughout the year 2007-08, the organizations Human Resource Developments (HRD) Strategies were pushed up to fit together the organizational accomplishments for valuable and proficient people, business and culture management. The HRD programs were given importance with impetus on in depth training programmes on new telecom technology, information technology and management development programmes, in addition to awareness programmes on these areas. On new telecom technology front, training programmes on core subjects, namely, GSM, CDMA, MLLN, ICT and others were organized. More than 2000 employees have been educated. On IT, projects and on IT related project associated training programmes were stalled for a while and, more importance was provided on crucial skillfulness on networking, data management and computer awareness training programmes. Approximately 336 workforces have been skilled on management development programmes achieved high appreciation, with focus on development of personality, motivation and stress management ability. Novel and idea generating meetings on creativity, quality, cost, time, resource conservation / management, and the like were arranged all over the business divisions covering 3543 employees. In places wherever performing in-house programmes were not practicable, 35 executives were trained by recommending them for external training programmes with prominent management development institutions.

In a short, Company could coach a total of 5916 employees through the year. The performance of business HRD and plans in execution of HRD in competition with qualitatively and cost efficiently is laudable, by exploiting the services of internal faculty and the accessible training resources. The HRD units have produced substantial proceeds. The company has been pleasant in their industrial relations circumstances during the year. In order to meet the company’s objectives the Employees' Unions and Officers' Associations gave their assistance and support in
making sure of smooth work flow and assisted the company. As a part of employee involvement in the managing of business, a top level meeting was held on 29th February and 1st March’ 08 at Bengaluru. The concerns were to connect organizations performance, order book position, new projects and the like were discusses about at length and the scrutiny/ information of management and unions/officers’ associations were exchanged. In addition to this, company based policy aspects; the staff had also put their requirements through their Union and Officers' Association to be deliberated. Company 6's revival arrangement had drawn together steam by acquirement of latest technologies to extend the product base and boost sales proceeds with enhanced profits. Company 6's turnaround plan visualized repositioning and enhancement of manufacturing infrastructure and structuring solutions and services industry and diversification with focus on IT and telecom software and exports.

In the year 2008, the Company has an adequate system of Internal Controls implemented towards achieving effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. With the hope of reviving the sick public sector, Indian Telephones Limited has diversified into e-governance and datacenters. The telecom company in association with Trimax has set up its first phase of the datacenter in its campus in Bengaluru. The existing premises is of 75,000 sqft and by 2010 the company is planning to complete the datacenter that would be built over an area of 1,20,000 sqft. So besides the regular telecom products business, Company 6 has also entered into the new businesses and hope to make it profitable in the years to come, said Behura. On the e-governance front, Company 6 is working on State Wide Area Network (SWAN) services with two states namely Maharashtra and Orissa.

The Company in this rapidly expanding yet highly competitive sector always had to face stiff challenges. Like yesteryears, this financial year under 2007-2008 review continued to pose rigid challenges. The insufficiency of working capital and the postponement in timely materializing of the estimated orders for the financial year did place the company on the defensive but did not dampen the spirits. The expected GSM orders got rolled over to the next financial year. Yet the company notched up a turnover of Rs.1210.04 Cr for the year ended March 2008, by resourcefully converting purchase orders to the billable products and containing the inventories. The turnkey projects, a major component in the organisations portfolio, which account for about
Rs.382 Cr included the successfully completed third phase of the massive Army Static Communication Network which earned hearty appreciation from the Indian Army. The sustained efforts of the company have resulted in a 11.57% reduction in losses (YoY) from Rs.405.26 Cr to Rs.358.38 Cr.

The net worth of the business without computing the revaluation reserve as on 31.3.2008 has totally frayed. Additionally, the business has sustained cash losses of Rs. 327.96 Crores and Rs. 358.34 Crores for the fiscal year 2007-08 and 2006-07 correspondingly. The cash losses for both the fiscal years have been calculated without estimating the effect of review credentials in the company reports. The business has evaded in settlement of dues to banks and financial establishments amounting to Rs. 421.30 Crores.

In the year 2008-09, publicly owned BSNL is understood to have combated integration of the sick Company 6 with it amidst rigid resistance from the workers union, a move that may not go well within the administration as the plan was initiated by none other than the Congress president. According to sources, BSNL has conveyed the communication and IT minister the merger of Company 6 would brutally affect the monetary position of the telecom service provider. The accrued losses of equipment producer Company 6 positions itself at about Rs 2,500 crore and its union with BSNL may put further burden of Rs 1,000 crores. However, the Board was not in favour of this.

Road Ahead

During these times of growth in the industry, the public sector giant, Company 6 declared that it was a sick unit. However, the company designed a new action plan not just emerged out of sickness but also to seek future growth. Though the plan seems to be fetching results slowly, it remains to be seen whether Company 6 will ride the wave of growth in the industry. Given the robust development projections of the telecom services business, India has come forward as the biggest virgin market for telecom equipment and turnkey solutions business in the total Asia-pacific area. With the government's affirmed strategy objectives and the probable ban, Telecom Equipment Manufacturers Association (TEMA) estimated outlay of $ 30 billion or Rs 1,30,000 crore by 2005 extend across - basic, cellular, paging, NLD, ISP and other value added services. Over the coming years, India and China will assist the worn out equipment manufacturing
segment to recuperate. These nations stand for the major soaring development markets in the globe, with tough requirements for telecom infrastructure.

The lessons to be discovered from this disaster are diverse. Major amongst them are:

1. Certainly do not take your existence for granted: The company was given a monopoly status and also being protected by the Government, company 6 did little to expand its production competence, its goods, its operational expenses and sales, as well as its promotion and customer service.

2. In par with the technology: company 6 must have developed and recognized technology that would have facilitated it to produce excellent telecom products that were valued rationally and were well promoted in India and overseas. However, it was unsuccessful to do so.

3. Shield the market share: Company 6 must have single-mindedly sheltered its markets and weathered the perception for innovative and potential markets.

4. Keep your business lean and mean: The organization should have been toned up and been made responsible on employee’s performance and efficiency should have been enhanced through an array of training programs.

It was observed that the firm is in deep financial distress and it is not easy job to turn around. It requires a valiant effort from all the people in the organisation and it is a very tough journey. However there are some valid suggestions that can be made about Company 6. Company 6’s problems were disbursement for amount outstanding and lack of orders from its big clients, the DoT. Company 6 is entirely possessed by the government and so is the DoT. As a result there is no basis why the Company 6 cannot be taken care of as a DoT representative. Company 6 could arrive at an agreement with DoT, wherein it gets to execute some part of DoT's yearly plan.

The old management adage entail that it is the frame of mind which alters a crisis into an opportunity or the other way round.

**Year 2010 for Company 6 and beyond**
In a meeting with CNBC-TV 18, Chairman and Managing Director of Company 6, in January 2010, told about the company’s expansion and growth plans. He said that the corporation has got Rs. 820 crore to wipe off liabilities. In addition there was going to be three joint ventures with the participation of both private and public where the controlling shares will be with the private organisations. The joint venture was going to be set up one in Rai Bareli, Naini and Bengaluru. We have already gone to the market and this is going to be finalized sometime in the mid-February. The company expects that Rs 2820 crore takes care of all the liabilities that they had accumulated over a period of time. The company proposes to contain the losses to a great extent by the end of the financial year 2010-11, because the company feels that this year they have been doing well. They think by the turn to 2011-2012 the company will be able to break-even and that will help the company to take care of the losses.

**Sources:** Annual reports, Business reports, Newspapers, Prowess database and interactions with the company personnel.

**Note:** The name of the company has been masked for confidentiality purposes.