CHAPTER 8

CASE STUDIES: UNSUCCESSFUL TURNAroundS OF TWO PRIVATE SECTORS

This chapter deals with cases developed from two unsuccessful turnarounds in Private sector organizations in Karnataka. They are company 7 and company 8.

8.1. Case Study 7: Unsuccessful turnaround of Private Sector - Company 7

Introduction

The Indian electronics Industry has evolved from an undersized government regulated and sluggish growth industry in early 1990s to a multi-segment export oriented that is witnessing rapid growth and high competition due to changes in Governments policy regime. The once protective policies have been relaxed to a great extent in a bid to attract foreign capital and adapt technology across borders, so that a globally competitive industry is developed. Feeling the heat of the resistance from global brands on its home territory and reeling under the beat of widespread slowdown in the economy, Company 7 group management worked out a blueprint to substantially reduce its workforce in the year 2002 as part of its restructuring plan. Company 7 group is an Indian electronics company that deals with consumer appliances (such as refrigerators and washing machines), home entertainment products and health care devices.

Over the years, Company 7's growth has been subject to constant challenges. Company 7 engineering Limited which is a part of the Company 7 group occupied in the production and sale of components, with its corporate office located in Bangalore, Karnataka. Karnataka state has sizeable presence in automotive and engineering sectors. The proactive policies along with capability and natural resources drive attractiveness for these sectors.

Industry Profile and Company Note-Electronics and Engineering Industry

India’s electronics industry offers opportunity for growth than need to be tapped to reduce dependence on imports. The industry structure comprises over 5,000 various components that are
classified under different segments such as speakers, transformers, power cords and cables, vehicle alarm system, transducers, relays, washing machine motors, and compressors.

The business was set up at a time when the government had set aside many areas of business for the public sectors. It had also practically banned most entrepreneurs from venturing into other fields through reservations on licensing. With the company’s supplies mainly concentrating on the requirements of the parent company which is into the production of Television and white goods. A part of their production was also exported to European, Asian and African markets. The onslaught of the Korean and Japanese products that flooded their products into the market with their high profile audio and video equipments and white goods which where competitively priced, started to erode the market share of Company 7.

The components industry has evolved from a small government regulated and slow – growth-industry in the early 1990’s to a multi segment, export-oriented industry that is witnessing rapid growth and high competition due to changes in the technology. The industry structure comprises over different segments. The industry domain has expanded rapidly over the years and has accommodated a lot of players; all this factors have lent support to the highly fragmented structure of the industry, with no company enjoying a major market share.

Demand for components is generated primarily from two sources, the OEMs (Original Equipment Manufacturers) and the replacement market, the former has a majority share in demand. The industry has been enjoying a robust demand in both domestic and export markets.

Company 7 was incorporated in 1963 as a Private Limited company and was promoted by Mr. TPG for the production of indicating instruments and Electronic Test and Measuring Instruments in technological and financial alliances with Company 7 Instruments Limited, United Kingdom. The business began producing hermetically conserved panel instruments at its industrial unit in Palakkad (Kerala) for armed forces. Later on, it began the production of electronic test and measuring instruments and electro medical instruments - defibrillators and central monitoring method. In 1979, permission was obtained for manufacture of plain paper copiers in technical collaboration with Gestaner, UK. Later improved state-of-the-art plain paper copiers were introduced in technical collaboration with Sanyo, Japan.
In the year 1982, the Company diversified into consumer electronics field, colour television receivers, black & white TV receivers, video cassette recorders etc. The products are marketed under the brand name `Company 7'. It was in this year the Company had embarked on the manufacture of components and compressors and formed consumer business groups. The consumer business (under Company 7 Ltd) was streamlined into four key business groups such as entertainment electronics, home appliances, soft energy and medical systems. The component line of business will comprise Company 7 Display Devices Ltd, Electronic Research Ltd, Company 7 Automation Ltd and Company 7 Engineering Ltd.

Company 7 Engineering Ltd., a subsidiary of Company 7 Ltd., was incorporated in 1982. The company, Company 7 Engineering Ltd is the component manufacturing arm of Company 7 Ltd. They were supplying components to various consumer electronics and home appliances for their parent company. Company 7 Engineering Ltd product line includes speakers, transformers, power cords and cables, vehicle alarm system, transducers, relays, washing machine motors, and compressors, The Company employs around 487 employees in both their components and compressor division in total. The compressor division of the engineering company is engaged in manufacturing of hermically sealed compressors for refrigeration industry. Most of these components recorded robust growth in turnover during its initial days and up to 2001.

Table 8.1.a: Profit After Tax and net worth of the Company 7 (Rs In Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit After Tax</th>
<th>Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>6.65</td>
<td>125.61</td>
</tr>
<tr>
<td>2001</td>
<td>6.68</td>
<td>129.45</td>
</tr>
<tr>
<td>2002</td>
<td>3.62</td>
<td>116.78</td>
</tr>
<tr>
<td>2003</td>
<td>-6.39</td>
<td>49.40</td>
</tr>
<tr>
<td>2004</td>
<td>-18.6</td>
<td>30.80</td>
</tr>
<tr>
<td>2005</td>
<td>-8.85</td>
<td>21.98</td>
</tr>
<tr>
<td>2006</td>
<td>-41.99</td>
<td>-20.01</td>
</tr>
</tbody>
</table>
From the above graph of Company 7 Engineering Limited it is seen that there is steady growth in the year 2000 and 2001. But there has been a steep fall in the profits after tax of the company in the year 2002 but still on the positive side. In the year 2003 and 2004 the company’s profits have dipped drastically indicating the fatal state of the company. In the year 2003-2004 corporate debt restructuring scheme has been adopted and in 2005 the firm’s losses have reduced. But due to failure of the same the losses have again fallen drastically and reached -41.99 in the year 2006.

The net worth of the company has been slowly deteriorating from 2001-2002 and shown no improvement there from. The company was unable to fight competition and adopt to new technology and adopted restructuring but the strategy has failed and has pushed the firm to a financial distress.

The detection of a firms operating and financial difficulties is a subject which has been particularly amenable to analysis with the financial ratios. Every ratio is unique and tells a different story about the financial position of the company, hence instead of searching for a one ratio Prof. Edward Altman has developed a new model that distils five key performance ratios into a single score called Z-Score. The Z score values of the Company 7 is as follows.
Table 8.2.a: Z-Score values of the Company 7

<table>
<thead>
<tr>
<th>Years/X</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
<td>0.201</td>
<td>0.195</td>
<td>1.3</td>
<td>(0.085)</td>
<td>(0.102)</td>
<td>(0.0064)</td>
<td>(0.0636)</td>
</tr>
<tr>
<td>X2</td>
<td>0.35</td>
<td>0.36</td>
<td>0.34</td>
<td>0.12</td>
<td>0.02</td>
<td>(0.02)</td>
<td>(0.27)</td>
</tr>
<tr>
<td>X3</td>
<td>0.25</td>
<td>0.26</td>
<td>0.095</td>
<td>(0.48)</td>
<td>(0.035)</td>
<td>(0.43)</td>
<td>(0.52)</td>
</tr>
<tr>
<td>X4</td>
<td>0.45</td>
<td>0.44</td>
<td>0.042</td>
<td>0.067</td>
<td>0.072</td>
<td>0.068</td>
<td>0.077</td>
</tr>
<tr>
<td>X5</td>
<td>0.67</td>
<td>0.71</td>
<td>0.64</td>
<td>0.83</td>
<td>0.72</td>
<td>0.43</td>
<td>0.66</td>
</tr>
<tr>
<td>Z-score (X1+X2+X3+X4+X5)</td>
<td>1.516</td>
<td>1.569</td>
<td>2.423</td>
<td>0.452</td>
<td>0.675</td>
<td>0.0316</td>
<td>0.0176</td>
</tr>
</tbody>
</table>

According to Prof. Altman, if Z-Score is above 2.90, the firm is in good financial position. If the score is between 1.21 and 2.90, indicates the warning signals leading to firm’s poor financial health. If the score is below 1.21, means the firm is tending towards bankruptcy. Company 7’s Z-
Score indicated in the graph clearly shows that during the period 2000-2002, the level is 1.21, hence indicating that the company enjoyed a healthy financial position.

**Sickness at Company 7**

The electronic industry in India has been driven by certain key attributes like favourable government policies, low cost of production, skilled labour, burgeoning demand especially from the international markets and competitive environment. The industry is however, vulnerable to certain concerns and challenges that are likely to erode its competitiveness. Sluggish growth in the end user industry, imports due to duty reduction, volatility favorable transfer pricing by overseas parent company and government policies with respect to free trade and preferential trade agreements with unequal access to each other’s markets were all problems faced by the company. The survival of the company was dependent on the parent company.

During the period 2003-2006 the firm’s financial position gradually declined due to several internal and external reasons. In 2003 with the bottom line blotched in red and costs spiraling, the very survival of the company was threatened. The firm incurred huge losses due to the entry of new competitors in the market and huge imports undertaken by many Company 7 clients. Company 7’s financial position was so bad, wherein the debt burden was really huge considering the size of the company. Thus, the management decided to undertake corporate debt restructuring and filed for it in Feb 2003. The restructuring plan added hope to the company’s survival and the company’s position slightly improved in the year 2004-2005, but the plans strong beginning did not last for too long and the company’s losses increased to the extent of Rs 41.99 crores in the year 2006.

The year 2004-2005 witnessed a lot of turmoil in the refrigerator industry with one of the key customers of the Company losing a lot of its contracting business as its major customers increased in-house production and did away with outsourcing. Rapid increase in material cost, primarily a result of increase in basic commodity prices like steel, aluminum and copper in recent times, are an area of great concern. Import of Compressors into India is another area where the Company is determined to remain vigilant, and pursue legally available means as and when necessary. Competitors include Bharath electrics, Genus Power, JCT electronics, Zicom security and many others. The industry own fragmented nature and low entry barriers for
international players have stepped up the situation. Besides, these factors pricing pressure faced by component manufacturers from OEM’s (Original Equipment Manufacturers) and Raw material suppliers have also contributed substantially to rise in competition

Rapid increase in material cost, primarily a result of increase in basic commodity prices like steel, aluminium and copper in the 2006, was an area of grave concern as the compressor manufacturers have not been able to pass on a corresponding price increase to refrigerator manufacturers and were consequently forced to absorb a substantial part of this increase, resulting in further erosion of margins. Import of Compressors into India is another area where the Company is determined to remain vigilant, and pursue legally available means as and when necessary. Excess compressor making capacity of various players in the country and imports were a cause for concern. While these were instrumental in restraining the price increase on finished products, growing input costs was constantly eroding the margins in the business.

Internally also the company was facing lot of problems. The company was able to sell what it produced but it lacked management in accounts receivables which had a drastic effect on its working capital. The company has poor accounts receivable management. The introduction of computerized systems for receivables management would make the system more effective. Thereby reducing losses due to non ability to fund obligations and also maintain inventory. Company 7 Engineering needed to adopt to change in technology. Introduce new technology in its production systems as well as compressors.

Company 7 has not been able to service its customer’s needs. Thus it is necessary to understand their requirements and change production accordingly.In addition, it is necessary for the company to focus on its core competencies and also on those domains where they are performing well rather than operating in those areas where its profits are low.

**Strategies for Turnaround**

Company 7’s, Chairman and Managing Director, told rediff.com in Bengaluru in 2002 in the headlines of a media interview to initiated Loewe TV models and that the company will have no option but go the way the globe is going. If Nortel or Cisco can lay off its workforce by thousands, the may have to choose a related measure to maintain development and remain
competitive. The company was working out a proposal on how to go about it. It's part of the group's reorganization arrangement to be a lean and mean organisation. It could be a voluntary retirement scheme or a severance package. The company is yet to work out the details.

Acknowledging that similar to any other production or electronic company, Company 7 too was affected by the prevailing economic depression and uncertainty. The Chairman said that transactions of its customer electronic goods throughout the current financial year 2001-02 had not observed superior development. It could be flat sales in 2001-02, quipped the Chairman, adding that the state of affairs might see a recovery during the last quarter of the current fiscal, thanks to a good monsoon, which will give boost to the sales in the semi-urban and rural markets. Since, the urban markets are almost saturated.

Dispelling qualms over capacity, under utilisation, the chairman told that the production facilities were working to full capability, particularly in the home appliances' sector as numerous national and multinational businesses have started outsourcing their needs. For example, the company is the major compressor producer in the nation, delivering them for leading Korean and Japanese brand. Company 7 Engineering capability in Hyderabad is running to complete capability. During the previous fiscal year 2000-01, the business registered a 15 per cent development in the television sector, selling 5.5 million units against 4.8 million in the previous financial year. In the year 2003, as part of its jumbo reorganization exercise, Company 7 engineering was look for external commercial borrowing means to bring down the organizations debt servicing overheads. At that point and time the organisations debts were totaling to over Rs 800 crores. The finance department had seen another appointment at the top a senior partner with and a vice-president to lead the finance reorganization efforts. Company 7, which was overhauling a debt burden in surplus of Rs 750 crores, had been in consultation with the ICICI bank-led syndicate to recast the debts at a supportive interest rate system. ICICI's contact with the company was projected at more than Rs 400 crores. This was a proposal for debt reorganization of the business. On the human resource side, the business was postponing the payment to the staff. The employee’s front across Company 7 group businesses like Company 7 engineering and Company 7 refrigeration confirmed in 2003 that the remuneration was being deferred. Several people said that few top level managers’ expenditure was deferred even further than 30 days.
The discussion for retrenching more staff in production units was also going on at this point of time. The business was by no means concerned in looking at retrenchments, but the marketplace has required them to carry out a cut back exercise. The proposal was revealed all the way through the business notice boards, but the reply was poor. Therefore, in 2003 a number of staff was required to leave forcefully. As a result, Company 7 Ltd and its associate organisations engaged a total of 7,000 people (2200 in Company 7 Ltd only), while, in 2001, the business had overall employee strength of 10,000 prior to the downsizing exercise in 2003.

In 2003, Company 7 has seen a wave of departing by top officials, which included the finance director, Chief Operating Officer (COO), Entertainment Electronics Business Group, and COO of Soft Energy Business Group. The company had also has roped in new hands to guide the marketing of entertainment electronics and soft energy business groups. The national sales head of ICICI Prudential Life Insurance, has been recruited as Vice-President in command of marketing for the Entertainment Electronics Business group. A former Coca-Cola official had also joined to steer the company's sales and marketing of the Soft Energy Business Group.

In 2004, Rs 4,500 Godrej group, pulled up a strategic chance in the Company 7 group’s compressor manufacturing company, Company 7 Engineering. The Godrej group was also preparing to become Company 7 Engineering’s client. The compressors manufactured by Company 7 Engineering initiated application in the white goods business. The Godrej group had a considerable existence in this segment through its variety of refrigerators and washing machines. For Company 7 Engineering, if the Godrej group goes further on with the plan to select a stake, it will lead to the infusion of much-needed finances. Thus, the Godrej group has expressed interest in picking up a stake in Company 7 Engineering.

To get things in action, in the year 2002 “The Balanced Scorecard” based strategic framework devised by the company would be the key to the restructuring programme. “The framework will focus on two key aspects — identifying business units and streamlining the core component business (mainly manufacturing lines) that would feed other businesses, “said Nambiar. The plan would not only look at bringing synergies among businesses and leveraging the group’s direction in manufacturing, but also construct the manufacturing/component line into a returns churning endeavor. The consumer business (under Company 7 ) was rationalized into four key business
groups, they include, entertainment electronics, home appliances, soft energy and medical systems. The component line of business will embrace Company 7 Display Devices Ltd, Electronic Research Ltd, Company 7 Automation Ltd and Company 7.

**The Balanced Scorecard Strategy**

No single measures can give a broad picture of the organisation’s health. In 1996, Robert Kaplan and Norton devised a framework based on four perspectives – financial, customer, internal and learning and growth. Thus, balanced score card is a scheme of business evaluation which looks at monetary and non-monetary essentials from an assortment of viewpoints. It is a method to provide information to the board so as to aid strategic policy development and accomplishment. It offers the client with a set of information which considers all pertinent part of performance in a purposeful and impartial manner. A set of procedures that gives top managers a speedy but all-inclusive view of the industry to get things in action, “The Balanced Scorecard” is based on the strategic structure plan by the business would be the solution to the reorganization programme. The structure will focus on two key features — recognizing industry units and streamlining the core component business (mainly manufacturing lines) that would feed other businesses, “said the chairman. The plans not only looks at bringing synergies among businesses and leveraging the group’s direction in manufacturing, but also constructs the manufacturing/component line into a returns churning endeavor.

Thus, at Company 7 the balanced score card was is a structure that focuses on shareholder, customer, internal system and learning requirements of a business to create a system of linked objectives which collectively describe the strategy of an organisation and how that strategy can be achieved. The various aspects of balanced scorecard adopted by Company 7 Limited and leading it to an impact on Company 7 are:

1. **Financial perspective**- The financial standpoint measures the outcome that the business conveys to its revenues from latest products, gross margin proportion, and cost cutback in key areas, economic value added and return on investment. Having realized the importance of the financial measure, it was time for the business to fall back on its core strength, “manufacturing”. Thus, Company 7 engineering limited started charting its plans based on a fiery growth map for its components business. The component business itself was estimated to touch the Rs 1000
croc mark in 2003. In 2003 the mix of component business was 50:50 of external revenues and in-house consumption. The company was looking at a double edged strategy to make this a business on its own. Wherein, this would see further consolidation of the manufacturing facilities, which would in turn lead to enhanced profits and take the company out of the red. In the year 2004 the company focused on cost reduction for the evident reason that it was in house and could be done by making the people understand the gravity of the situation the company was in and the economic situation existing in the country and across the world as a whole. The entire factory operations were revamped and redundant expenses arising at all levels were studied and the whole process was restructured. Creating understanding at all levels helped the company in reducing the costs. In addition, outsourcing of non core activities was done mostly to save on the cost. Non Value added services were the foremost criterion where it was weighed appropriately to outsource(not the activities which required particular tasks to do it proficiently). Total Productivity Management (TPM), was implemented and the standard value creation was the key aim. Thus, cost reduction and better utilization of Men, Machine and Materials were the main mantra.

2. **Customer perspective**-The customer viewpoint regards the company through the eyes of patrons/customers, calculating and eliminating upon customer contentment. The actions are:- market share, customer satisfaction, customer preservation percentage, time taken to accomplish customer’s demand. In 2004, to be a key player in this industry, Company 7 desired to go global and therefore they were targeting the clientele in Europe and the Asia Pacific market. With sturdy design and expansion support, the components group of Company 7 had become a chief player in the world component market. In addition to this, Company 7 also became the principal manufacturer of compressors and motors for washing machines and refrigerators and targeted the one million compressor mark for the year 2005.

Unlocking worth in conditions of novel branding and product contribution to gather a bigger pie of the market became a vital element of the overall expansion plan for the business. Revamping of the audio line of company was on cards in line with the innovative strategy. In 2004, the audio market was valued about Rs 1,000 crore in India, of which music systems accounted for 45 per cent by value, others 55 per cent with an escalation of about 10 per cent. Company 7 Limited was present across all segments in the audio sector with a total of 36 models. The company had
followed a two-pronged strategy wherein, they entered the market with a latest set of products and targeted the core of the market, the Rs 6,000-Rs 12,000 segment and offer products with a higher configuration category contributing audio products besides colour televisions. The strategy aimed at reducing close competitors in this group like Sony which was aggressive in price points of Rs 20,000 and above, Philips at about Rs 15,000 — Rs 18,000.

3. **Internal process**-The internal viewpoint focuses consideration on the performance of the key domestic methods which force the business such as pioneering process, operations, service and after-sales services. The implementation of a technology backed image was also set to give the company a play in the ‘innovation/smart’ product image segment. The sanctioned assessment of the brand in 2004 was estimated to give a boost to the brand image. “The plan for Company 7 is to clearly straddle all brands and segments through a system of sub-branding to address specific market niches, segments and price bands,” according to Company 7 corporate brand management head. The Company 7’s brand design spanned a large variety of psychographic and demographic segments as component of its strategy of providing to a heterogeneous market. As a part of the brand campaign, Company 7’s brand building began with the Company 7 company brand or corporate brand encircling all product categories. Company 7 limited identified the component business, which is Company 7, as a core line which will feed other businesses as well as drive revenues independently. Component business set to crossed Rs 1000 crore mark in the year 2005. This move also enabled the organisation to tap the contract manufacturing business.

4. **Learning and Growth perspective**-includes organisational competencies, technology enablers, employee education and skill level, employee turnover ratio, information system accessibility, employee proposal implemented. To make sure noteworthy synergies amongst business initiatives, Company 7 limited had set up a software development centre in the year 2004, which would focus on growth of embedded software and systems for consumer electronics and telecom industries, network solutions, call centre solutions, ERP solutions, etc. Besides, total mechanical and industrial design solutions for the consumer electronics industry. This intended at providing Company 7 limited an obvious opportunity to migrate to a business model that is based on hardware and services thus enhancing its value in future. “Company 7 is already a backwardly integrated company with significant part of the value addition for the end product
being created in house,’’ said the MD. When the entities strikes proper balance amongst the above four items the result will be optimum.

The Corporate Debt Restructuring (CDR) scheme approved by Company 7 became effective on the 31st March 2005. A substantial number of lenders confirmed their acceptance of debt restructuring terms forming part of the CDR Scheme. The Company filed a petition in the Karnataka High Court during the, under the relevant provision of the Organisations Act, in order to make the CDR Scheme binding on the balance lenders, who have not offered debt restructuring consistent with the CDR Scheme. Apart from securing favorable terms in the CDR Scheme, which the Company achieved, sourcing new working capital credit lines in the circumstances that the company is placed, became a key challenge in the period under review. The management is actively engaged in this pursuit, but has only been partially successful in mobilizing the required working capital. Consequently the operation of the Components Division suffered, leading to its possible closure, thereby leaving the Company with one operating division, i.e., Compressor Manufacture and its Sales & Servicing.

Note: The company had decided to enlarge the previous fiscal 2005-2006 year to cover a time of 18 months, in order to consider the benefits of debt reorganization, infusion of supplementary working capital and their business influence, if any. In the year 2004-2005 the refrigerator organisations to whom the company had been supplying compressors have continued to import compressors resulting in reduction in volume of sales by 25%. The imports had become cheaper as the customs duty was being reduced every year.

The replacement market has to be tapped fully and products have to be catered for the market. There is much scope for this market and has to be tapped fully. The Company focused on product improvement and thereby, new washing machine motors were also developed as per customer requirements. New Hydrocarbon refrigerant based compressors are developed to meet the demands in the European markets. Development of 5.1 Home Theatre speakers and other accessories for the Pro Fx range of Amplifiers and Speakers were carried out. For the mobile phones, chargers, speakers and microphone components were developed. Ceiling speakers for channel music system was developed and tested successfully. Anticipated growth in domestic white goods markets would provide a large market size for the company. If the demand of the
parent company’s products increases, naturally the company would also be seeing the light of the day, as it is directly proportional with the sale of the goods of the same.

A major fire broke out in the factory premises in Bangalore in September 2006, when a considerable amount of equipments were damaged beyond normal usage. Though Insurance claims were processed, it will no longer be able to continue its operations, and as an immediate measure, it decided to close its factory. Mobilising of working capital was the key factor, wherein the sourcing of new working capital was a challenge. CDR (Corporate Debt Restructure Scheme) was secured with favourable terms for the company. The reason for the company continuing to be in sickness is that criteria the Company 7 Engineering was solely dependent on its Parent company, that is, the Company 7 Ltd which had the Telecom ( telecom instruments - landline, and mobile chargers, accessories, Television, and white goods. - compressors and motors and plastic injection moulding materials etc.

**Reasons for further failure**

If the demand of the parent company’s products goes up, naturally the company would also be seeing the light of the day, as it is directly proportional with the sale of the goods of the same.

So considering the above, it necessary that the company has to seek markets of the components on its own rather than being in the shadow of its parent company. It has to invest in Research and Development a good amount as the investment was only 0.26% as of 2004, with respect to the total turnover. Cutting edge technology is the only way out for reaching out to European countries and other export markets, as well as to capture the internal markets. In the components manufacturing operations below the breakeven sales have resulted in the cash loss of the company. Company 7 Engineering needed to adopt to change in technology, introduce new technology in its production systems as well as compressors and re-designing of equipments and innovating new products with latest technology.

The company had poor accounts receivable management. The introduction of computerized systems for receivables management would make the system more effective. Thereby reducing losses due to non-ability to fund obligations and also maintain inventory. Rapid increase in material cost, primarily a result of increase in basic commodity prices like steel, aluminium and
copper in the 2006, was an area of grave concern as the compressor manufacturers have not been able to pass on a corresponding price increase to refrigerator manufacturers and were consequently forced to absorb a substantial part of this increase, resulting in further erosion of margins. Import of compressors into India is another area where the company is determined to remain vigilant, and pursue legally available means as and when necessary. Excess compressor making capacity in the country and imports were a cause for concern. While these were instrumental in restraining the price increase on finished products, growing input costs was constantly eroding the margins in the business.

Distorted duty structure as between input duties and import duties on components and finished goods, nascent export market in the West European countries and beyond, which are high on quality and energy efficiency which are light years ahead in technology, pose a problem. Engaging the government on respective issues wherever necessary, enhancing internal cost competitiveness, upgrading product and technology where necessary, and addressing key export markets with renewed efforts. Anticipated growth in domestic white goods markets would provide a large market size for the company.

Since the group had an over ambitious expansion program and it invested in Power and Telecom. Both these sectors are highly technology driven and they have a long gestation period. So whatever cash they had derived in these verticals of white goods and domestic appliances were invested in these two sectors. So, there was not enough working capital and their debt restructuring program was also not successful. And the threat from the Korean products in the likes of LG and Samsung were also the cause. So considering the Company 7 they had a very less production for external organisations other than the group organisations. The ratio will be in the likes of 85: 15, which will be 85 - Internal Group consumption and 15 External Supplies including a miniscule percentage of export.

However, in 2005, the parent company’s shares were de-listed from the Delhi Stock Exchange Association Ltd(DSE) w.e.f. March 31, 2005. This further damaged the position of Company 7. The compressor division’s production was marred due to non-availability of operational capital. Though manufacturing was started in the later period, it was less than the break-even quantities. Pressure in input prices of washing machine motors and competitively priced imports were
making the business unviable. Though modifications and value engineering were carried out, it did not result in the desired level of meeting the price points of the motors that were imported.

Though the acceptance of the motors were there in the west – European and Middle East market, the conversion into commercial orders could not be done due to the extended working capital cycle for exports and limited availability of operational capital. The Company’s operating company’s have been under rigorous difficulties due to working capital restrictions and have not been able to execute to their most favorable height. As a result, net sales and other income of the Company has considerably reduced, resulting in loss for the year 2007 and 2008. Company 7 has not been able to service its customer’s needs. Thus it is necessary to understand their requirements and change production accordingly. Company 7 failed to understand the needs and wants of the customers, proper management of the men, material and money. It is necessary to price their products rightly and not to absorb a substantial portion of material and manufacturing price. Thus, Company 7 showcased inability to properly price its products. Man power is very essential for efficient management. Thus HR Issues are sensitive and need to be handled with care.

**Future Plan of Actions**

The Company is abiding its efforts to tackle with the working capital needs and is expectant of assembling the necessary funds through the current fiscal year 2009. With infusion of the further funds and conclusion of reorganization exercise, together with definite novel project, the business is positive of making most favorable utilization of all resources accessible at its disposal.

Small export orders presently being serviced has to be developed into big business and expanded to various destinations. Improve energy efficiency and noise levels to match European market requirements, development of new models for developing business from new segment opportunities, indigenization of chemicals and oils in the Non CFC, to reduce materials and inventory costs. Cost reduction benefits to be achieved from alternate sourcing and design improvements and design modifications and value engineering. Import substitution was done in the audio side in speakers, amplifiers and other accessories. Continuous improvements for increasing efficiency and noise reduction to make Company's product competitive in National
and International markets were also considered. Understanding the changing customer needs and upgrading the products to their desire so as to develop an application engineering team to support the customers and strengthen Company's presence in the commercial refrigeration segment. One can only hope that Company 7 will succeed in its CDR plan and will overcome its financial problems with the help of funds and proper management. One can only hope it flies even after its wings were injured.

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.

8.2. Case Study 8: Unsuccessful turnaround of Private Sector - Company 8

Introduction

Nationwide Aerospace Organisations, Hindusthan Aeronautical Limited (HAL) and Indian Satellite and Research Organization (ISRO) had no supplier in the nation who could offer significant composite items to go on their satellites, launchers and aircraft. As overseas sources do not part with such items, they had to generate their own supplies. In a leading advancement, Company 8, a Parent company was born as a composite Aerospace Industry in 1990. Due to this composite technology, it had usage in Defense & Industrial areas. Company 8 made its mark in this business with contracts from concept to product in Defense & Industrial sectors. At present almost a dozen global aerospace majors are looking to supply from the country's only high-end composites manufacturer in the private sector. Company 8 was incurring losses since 1993 as they had to restrict their products only to the Government and was referred to BIFR in 1999. However, in 2004 the company turned around and came out of sickness and started making profits. However, Company 8 is devising an effervescent path to potential growth as it arranges to expand its company in the defence, industrial composites and aerospace segment.

Indian Composites Industry – Overview

India is the best ever budding marketplace for composite materials. During the last three decades, many industries have been established in the country. But the Indian Composites Industry faces
many difficulties with respect to high cost of raw materials, lack of availability of many essential materials because of import restrictions and the lack of mechanized production methods affected the production of composites in large volumes. The business is looking for government holding particularly with view to monetary incentives, investigative aid and to generate a superior responsiveness with reference to employ composites in a variety of business chiefly pipes for water and sewage transportation, substance tanks and equipment as also for armed forces use. The government is dedicated to make possible expansion of Indian composites businesses throughout the most recent direct research offered by technical organization. State-owned technology information, forecasting and assessment council has set up a composite application unit at IIT, Kharagpur, which is industry-oriented and intended exclusively for the growth of new composite technologies. The total production of composite was about 75,000 tons in 2004-05 and it had risen to 1,10,000 tons in 2005-06. The following Graph 8.1b shows the growth of Indian composite industry from 1990-2004.

Graph 8.1.b: Growth of Indian Composite Industry
Indian Composites Industry is recording two-digit growth through the past five years. The Indian composites business has confirmed track evidence for its low cost manufacturing base with mechanical procedure, together with strong design and growth proficiency. Many markets with noteworthy growth prospective have adopted composite results. India presents many prospects in the composites industry for innovative competitors as well as existing and growing organisations. This is the perfect time for business players to take part in the quick and efficient expansion that is projected in the Indian Composites Industry in the subsequent years. According to new Composite Insights’ market testimony, the market for composite materials in India is predictable to produce from to $1400 million in 2009 to 2014 at a CAGR of 17.4 percent.

Company profile

The history of humankind is packed with dealings which necessitated people to struggle, defend and guard themselves against diverse “enemies” which incorporated Mother Nature who let loose her rage by system of rain, heat, snow and the like. As human race developed, disagreement came up which required them to battle alongside other men and ever since then human beings has been discovering explanations to guard themselves. Starting off with plants and tree barks to beast hides, moving to resources like steel, human beings have been finding “Shielding solutions” for centuries.

The Company 8 group is renowned by the humankind for its input to the business of contemporary India with its trail burning assistance by instigating, fostering and budding sectors like automobiles, steel, space, fundamental research, power, aviation, information technology and the like. The group commenced social engineering with ideas like provident fund (social security), healthcare, family planning, village adoption and the like, and at one point the steel producing business even had a punch line – WE ALSO MAKE STEEL. The conglomerate has always undertaken projects, where no one has challenged to if it destined help to the nation.
In holding to this philosophy, the group commenced the Company 8 in the year 1990 to expand solutions by means of composite material whilst very hardly any organizations had known of composite materials. True to method the prominence was on country building and the business presented solutions for individual armour by producing Bullet Proof Helmets (BPH), Bullet Proof Jackets (BPJ), and connected solutions. The business pursued this up with solutions for the Indian Satellite plan, Aircraft Development, other armed forces linked solutions and currently, the business on the brink of making yet another prototype move keeping in mind the existing safety measures and monetary scenario in the nation.

Company 8 is a division of the organisation’s group of big business. COMPANY 8 was started in the year 1989 as Matrix Materials Limited, and later in 1992, it was renamed as COMPANY 8 and was converted into a listed organisation towards the end of 1994. The organisation’s headquarters and manufacturing facilities are at Jigani, about 30km from Bangalore, Karnataka. The Parent company and its acquaintances embrace forty eight per cent in the Bengaluru-based production, with the thirty per cent held by parent business. The rest fifty two per cent is held by the public. Company 8 is the largest manufacturer of Composite Products in Private Sector in India. It is involved in design, manufacture & supply of composite goods for aerospace, armour, transportation and infrastructure sectors of world class standards. Company 8 is a revolutionary endeavor in the area of polymer based fiber composites.

Company 8 offers its goods on a regular basis to Indian Armed Forces, Paramilitary Forces and other users out of the country. At present, Company 8 is the major producer of Ballistic Vests and helmets in India and has provided more than 1, 50,000 vests & 1, 00,000 helmets to date. Also Company 8 is currently executing Satellite & Helicopter parts for ISRO & HAL. Company 8 has its facilities at Jigani Industrial Area on a sprawling sixteen acre plot. Its infrastructure consists of knowledgeable and trained human resources, state of the art equipment and a wide scope of capacity to pursue design, development, testing and manufacture of various forms of composite products for Aerospace and Armour. Company 8 has initiated a sophisticated facility to produce composite products for aerospace business. The facility can also be utilized for other Space and Aircraft related composite product manufacture, in the future. Company 8 delivers Armour products from time to time to Indian Defense Forces, Paramilitary forces and other such forces in foreign countries. Company 8 is the biggest producer of ballistic vests in the country.
Company 8 is the sole organisation in India to have a domestic Ballistic Test Laboratory and with efficiency in ballistics, providing some of the lightest armour solutions in the globe.

Company 8 designs, develops, tests, and manufactures various kinds of composite products. The company’s products include carbon fiber based composite solar panels and yokes for satellites; and flexible armor for protection of personnel, and rigid armor for safegauring of vehicles and equipment. Its goods contain assault type, executive, concealable, commando type, anti fragmentation, and floatation vests, as well as bomb baskets, bomb blankets, helmets, bomb disposal suits, riot helmets, riot shields, morchas, and defense products; and V-sat antenna systems and roof top shelters. Company 8 functions through three divisions - aerospace, defence and industrial composites.

Aerospace sector of Company 8 is concerned in design, productions and sale of composite components, parts, sub-assemblies for employing in Aircraft, Helicopter, and Space. Company 8, currently offers absolute uninterrupted response from idea to product in the field of composites and its offerings comprises of, design and analysis, tool design and its production, manufacturing of composite machinery and material testing & categorisation. The superior capability is positioned at Jigani, Bangalore has excellent infrastructure for requirements of temperature & moisture restricted clean rooms, cold store, process compartment, significant procedure and superior equipments supported by superior systems to collect the ever developing requirements of the aerospace expectations. Company 8 is the leading business in India to be approved for NADCAP (National Aerospace and Defense Contractors Accreditation Program) certificate in composite producing. It is also an AS9100 certified company. Company 8 offers to the necessities of both marketable, military divisions in helicopter, space, and aircraft business. The capacity development arrangement being followed is sustained by the parent group’s calculated development focus in aerospace segment. This development is in situations of infrastructure capability, design and analysis capacity, production capability, quality capacity and technological capability. An infrastructure with 280,000 square feet of production section, supported by Critical process equipments’ was ready for functioning in March 2009.

Company 8 commenced the design and production of light weight composites supported bullet resistant jackets to NIJ Level III-way back in 1992 in a technological association with SNPE of
France (French Government owned Armed Forces Company). Over the years Company 8 worked directly in revolutionary Public Private Partnership in the expansion of special composite containers for transmission of a variety of sensitive goods engaged by the Indian Armed forces. The company also worked in building other special applications used in vital operation and products by the Indian armed forces.

Industrial Composites Company 8 has developed products for Medical, Wind Energy and Electrical Power Industry by means of its design information in Composites. A number of the products developed are Cradle Pads for MR Scanners (GE Med Systems), MR coils for MR scanners (GE Med Systems), Composite Disc for Wind Turbine (RRB Vestas) Carbon Fiber parts for Mamograph (GE Med System), GFRP Tube for SF6 gas insulated switchgear (SIEMENS). Company 8 produces products and techniques by means of superior materials and composites for the telecom, defence, transportation and aerospace sectors came under the purview of the Board for Industrial and Financial Reconstruction (BIFR) in 1999. The company was ailing from 1993 beyond.


**Table 8.1.b: PAT and Networth of Company 8**

<table>
<thead>
<tr>
<th>Year</th>
<th>Networth (Rs. in Cr.)</th>
<th>PAT (Rs. in Cr.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>-14.22</td>
<td>-7.92</td>
</tr>
<tr>
<td>2000-01</td>
<td>2.19</td>
<td>-1.19</td>
</tr>
<tr>
<td>2001-02</td>
<td>0.46</td>
<td>-4.73</td>
</tr>
<tr>
<td>2002-03</td>
<td>1.74</td>
<td>1.28</td>
</tr>
<tr>
<td>2003-04</td>
<td>1.99</td>
<td>0.25</td>
</tr>
<tr>
<td>2004-05</td>
<td>3.06</td>
<td>1.07</td>
</tr>
<tr>
<td>2005-06</td>
<td>11.42</td>
<td>8.36</td>
</tr>
</tbody>
</table>
The solvency test plays an important role in the management of organisations. The detection of a firm’s operating and financial condition is a subject which is analyzed with various financial ratios. The problem with this approach is that each ratio is unique and tells a different story about a firm’s financial health. Many a time, they even appear to contradict each other. Having to rely on a bunch of individual ratios, the analysts may find it confusing and difficult to analyze the company as a whole.

Rather than probing for a sole best ratio, Prof. Edward Altman has built a novel model that distills five key performance ratios into a particular score called Z-Score, which gives patrons a good snapshot of an organisation’s financial wellbeing.

**Table 8.2.b: Z-score value of Company 8**

<table>
<thead>
<tr>
<th>Year</th>
<th>PAT</th>
<th>Networth</th>
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</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>8.79</td>
<td>-2.63</td>
</tr>
<tr>
<td>2007-08</td>
<td>2.66</td>
<td>-6.07</td>
</tr>
<tr>
<td>2008-09</td>
<td>8.07</td>
<td>-9.73</td>
</tr>
<tr>
<td>---------------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>Working Capital</td>
<td>2.09</td>
<td>-0.13</td>
</tr>
<tr>
<td>Total Assets</td>
<td>8.31</td>
<td>5.65</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>-21.72</td>
<td>-21.11</td>
</tr>
<tr>
<td>EBIT</td>
<td>-3.46</td>
<td>-0.51</td>
</tr>
<tr>
<td>Equity</td>
<td>7.50</td>
<td>23.30</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>8.31</td>
<td>5.65</td>
</tr>
<tr>
<td>Net Sales</td>
<td>2.94</td>
<td>16.27</td>
</tr>
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</tr>
</thead>
<tbody>
<tr>
<td>WC/TA</td>
<td>0.25</td>
<td>-0.02</td>
<td>0.19</td>
<td>0.32</td>
<td>0.31</td>
<td>0.56</td>
<td>0.77</td>
<td>0.52</td>
<td>0.42</td>
<td>0.20</td>
</tr>
<tr>
<td>RE/TA</td>
<td>-2.61</td>
<td>-3.74</td>
<td>-3.37</td>
<td>2.71</td>
<td>0.07</td>
<td>0.05</td>
<td>0.14</td>
<td>0.22</td>
<td>0.02</td>
<td>0.05</td>
</tr>
<tr>
<td>EBIT/TA</td>
<td>-0.42</td>
<td>-0.09</td>
<td>-0.52</td>
<td>0.33</td>
<td>0.05</td>
<td>0.09</td>
<td>0.19</td>
<td>0.04</td>
<td>0.05</td>
<td>0.04</td>
</tr>
<tr>
<td>Equity/TL</td>
<td>0.90</td>
<td>4.12</td>
<td>3.44</td>
<td>2.92</td>
<td>0.10</td>
<td>0.03</td>
<td>0.01</td>
<td>0.03</td>
<td>0.01</td>
<td>0.10</td>
</tr>
<tr>
<td>Sales/TA</td>
<td>0.35</td>
<td>2.88</td>
<td>1.32</td>
<td>3.05</td>
<td>1.21</td>
<td>1.42</td>
<td>2.29</td>
<td>2.07</td>
<td>0.29</td>
<td>0.3</td>
</tr>
</tbody>
</table>
The **Z-Score** started with -2.608 in 1999-2000, much below the standard score of 1.21 (Danger Level) indicating the bankruptcy, it improved in 2000-2001 to 1.14 and then again decline to 1.579 (negative) in 2001-2002. The Z-Score was at its best at 7.815 in 2002-2003. It maintained the performance around the Health Level (2.90) till 2006-2007 and then depreciated to 0.762 in 2007-2008 and 0.620 in 2008-2009. The company has to improve the Z-Score which indicates the liquidity and solvency.

Graph 8.2.b: Z-score values of Company 8
Sickness at Company 8

Company 8 produces goods and system by means of advanced materials and composites for the telecom, defence, transportation and aerospace division came under the purview of the Board for Industrial and Financial Reconstruction (BIFR) in 1999. The company was sick from 1993 onwards.

The reason being the Company was dependant on Bullet Proof Jackets business based on the orders from defence but later diversified into products for aerospace segment. They commenced numerous other goods like composite antenna reflectors, telecom shelters, mobile containers, but these products provided markets that were not big enough to maintain the company. This was one of the reasons for the business descending into sickness. The failure was also due to increase in personnel expenses and business development expenses for the expansion of facilities for armour and aerospace products. The insufficient capabilities for the manufacture of aerospace sector resulting from the deferred project implementation also contribute to the loss. The company persistently faced challenges in securing huge long term contracts for its products. The
low turnover and loss incurred by the Company for the year was mainly on this account. The performance was further impacted by the Company's inability to secure enough raw materials due to embargo on exports of certain raw materials to India.

In the Armour Business, the Company continued to be significantly dependent upon large orders from the Ministry of Defence (MoD) which did not fructify. The Indian government’s lack of both transparency as well as speed in decision making made transactions difficult for aircraft manufacturers supplying to this powerful body.

This segment witnessed severe competition with numerous domestic and international organisations with exclusive supply agreements entering this product variety. The Company made efforts to broad base its customer portfolio beyond the Ministry of Defence by exploring opportunities in the Indian Police and Paramilitary space along with export possibilities. The Company has increased its product range in bullet proof jackets with newer and more effective solutions. The Company is also investigating the prospect of business and technology tie-ups with reputed producers abroad.

The Company had got into the business of armouring vehicle, mainly for defence and police forces. This business was at an embryonic stage and was anticipated to develop only over time. The Company will be required to forge strategic partnerships with other organisations to accomplish in this business. Additionally, an immature infrastructure, limited growth of carriers in terms of flight frequency and additional routes adversely affected demand for aircrafts and their parts.

The Company went under primarily, since, estimated orders to the private sector from aerospace actions like the Indian Space Research Organisation (ISRO), by no means came through. Faced with this non-release of orders, Company 8 after that commenced to deliver goods to the Ministry of Defence, together with bullet proof jackets. The performance was further impacted by the Company's inability to secure enough raw materials due to embargo on exports of certain raw materials to India. The failure was due to increase in personnel expenses and business development expenses for the expansion of facilities for armour and aerospace products.
In the year 2000, Company 8 was said to have solicited the Board for Industrial and Financial Reconstruction (BIFR) for giving in of the changed rehabilitation arrangement succeeding to non-receipt of orders from aerospace organisations like the Indian Space Research Organisation (ISRO). Nevertheless, refusing the requests, IDBI, the operating agency had been aimed at by the BIFR to publicize for a modification in the administration of Company 8. In addition, to this the BIFR had aimed at the operating agency to issue an announcement welcoming proposal for the organizations amalgamation, takeover, leasing, or merger for the turnaround of Company 8 with or with no a one time payment of the levy to financial establishments and banks. Consequently, Company 8 had filed a petition in opposition to the BIFR order in front of the Appellate Authority for Industrial and Financial Reconstruction (AAIFR).

**Turnaround at Company 8:**

On September 20th, 2000, the Appellate Authority for Industrial and Financial Reconstruction (AAIFR) on the examination of Company 8 has lined that the business positioned external to the provisions of the Sick Industrial Organisations Act (SICA).

This followed the approval of the arrangements to exchange Inter-Corporate Deposits (ICDs) appreciated Rs 15.80 crore advanced by Parent company Ltd (TIL) into equity (shares having face value of Rs 10 each) moreover with interest waiver approximating a sum of Rs 1.45 cr ore, increasing the companies stake in the big business to a predictable 83.26 per cent. Company 8 consequently changed equity base when added to its reserves made the organizations net worth positive, alongside the preceding state of affairs of encompassing accumulated losses of Rs 21 crore on a paid-up equity capital of Rs 7.5 crore. The following are the turnaround strategies implemented by the business to revitalize itself.

The organisations forayed into an age of aerospace composites with a long-standing agreement with ISRO for creation of critical satellite division in year 2001. Ever since, they provided critical components for the ISRO launch vehicles. The components made by Company 8 had been productively positioned in space during the years 2001 and 2002. ISRO considered Company 8 a strategic collaborator and they expect much more trade from them. The initial order came from HAL in the year 2005 for providing approximately 165 apparatus for the
Advanced Light Helicopter (ALH). In this way, the company was able to tie-up with a strategic partner.

The Company also increased its product range for BPJs (Bullet Proof Jackets) by value added products. The investments which are being made started yielding results in the coming years. The Company is also entering into vehicle armour products. Anticipated boost in efficiency and earnings in quantifiable terms. The Company has enhanced its sales in respect of aerospace products and is preparing to tap global markets for armour products to enlarge its customer base and amount of sales. The demand for Bullet Proof Jackets continued to be buoyant. During the year 2005-06, the Company executed contracts for supply of 75955 Number of Jackets, as compared to 26176 Jackets in 2004-05 from the Indian Ministry of Defence, Government of India. The Company has received a repeat order for supply of additional Bullet Proof Jackets for execution during 2006-07 from Indian Ministry of Defence. The Company continues to receive orders from State Police Forces for armour products.

Concerning the aerospace, they had set up sales network to embark upon foreign customers and also leveraged the organisations business survival in this segment to create associations with consumers. This industry certainly necessitated thorough excellent certification. The Company was licensed AS 9100 by specialized NADCAP and the only company in India to get the rigorous certification for composites production. This facilitated the business to recover its sales network and distribution channels.

On the armed forces side, the organisation marched up new product introduction activity significantly. The company was hopeful that the armoured vehicle business will contribute significantly. The company forayed into aerospace composites with a long-term contract with Indian Space Research Organization (ISRO) for making critical satellite parts in 2003. It is now considered as a strategic partner by ISRO and the company is looking forward to more business from it. It is moreover a tactical supplier of intricate composite machinery to Hindustan Aeronautics Limited (HAL). The Company made substantial investment for creation of capacities for aerospace products and armour products. The Hi-tech aerospace composites capacity set up by the Company is competent in supplying the export market for such products, the prospects for which are promising. The Offset Policy of the Government of India requiring
Aircraft Majors to source material from India strengthened the export initiatives of the Company. Having bagged fresh contracts from Indian Aerospace organisations, the Company expects to further improve its presence in the aerospace sector during the year 2008 and also create additional capacity.

Thereafter, HAL had given further orders, and in the year 2009. The organization provided more than 500 of the 800 components per helicopter to HAL. HAL has also assigned them with supplying sophisticated carbon fibre tools for their new helicopter program. The company also tied up with world leaders in composites to progress in stages in the know-how gap and provided outstanding consequences swiftly. They also fortified the plan and expansion groups significantly in both divisions as this was their core competency that divided them from competition.

In 2009, based on the experience the company had with HAL and ISRO, several US and European organisations had expressed interest in working with Company 8. With increasing business in these areas; the over-dependence on armour products reduced. Efforts, in short were made towards technology absorption and innovation. The core group, set up for aerospace activities, became operational and demanded production quantities of Aerospace products for key agreements on hand. The Aerospace expertise has enthralled principal Aerospace producers abroad to get in touch with Company 8 for feasible acquaintances in future. Company 8 developed techno-commercial schemes for the same. The company also got contracts with Boeing for the 787 Dreamliner programme, with Pratt & Whitney (P&W) for significant jet engine machinery, and with Goodrich for internal components for the Airbus. The organisation also provided components that go into first class and business class seats on the Boeing 767 and 777 airplanes. These were offered to BE Aerospace, the major producer of seating structures in the globe.

The chief challenge for Company 8 was to expand the merchandise offerings for the armed forces and engineering composites division, and to capture main contracts in the aerospace division.
Fortunately, both these industries have longer economic phases and the depression has not yet hit them. The business was certain that by the time they are completely prepared to offer to the worldwide industry, the existing recession would be ended. The company has moved away from Indian defence and is focusing on aerospace. Leveraging its expertise evolved over the last 3 years from 2003 to manufacture aerospace composite products, Company 8 is now looking at manufacturing composite products for the global aerospace industry. The Company has recently been recommended for AS 9100 certification, which is a global quality benchmark. Company 8 has already recorded the first few export contracts with global organisations and expects to emerge as a key player in this fast growing market.

In order develop its human resources the company also spent huge sums of money on training and management development programs. In order, to convert its deposits into equity for settlement of their creditors (Financial Restructuring), the company informed the BSE that its promoters, parent company, have offered to convert their inter-corporate deposits of Rs.15.80 cr. into equity and quasi equity, upon receiving appropriate regulatory and shareholders’ approval to support a one-time settlement with its secured creditors. The company also submitted a revised rehabilitation package to IDBI on Aug 3, 2000. Subsequently on August 22, 2000 the company filed an appeal before the Appellate Authority for Industrial and Financial Reconstruction (AAIFR) against BIFR’s order.

The Appellate Authority for Industrial and Financial Reconstruction (AAIFR) on 20th September, 2000 gave sanction to Company 8 to alter Inter- Corporate Deposits (ICDs) value. However, in spite of all the efforts put in by Company 8 on restructuring, it was not able to sustain itself. Thus, in the year 2006-2007 the company again fell sick, due to the following reasons. The high cost of raw materials and lack of availability of many essential materials because of import restrictions and the lack of mechanized production methods affected the production of composites in large volumes. As a result, Indian composite industry could not compete with steel, aluminum or timber.

The industry was looking for government help particularly with regard to financial encouragement, research backing and to craft a superior alertness with reference to the employment of composites in different business particularly pipeline for water and sewage
transportation, chemical tanks and tools for defence purpose. In addition, to this the company felt that the banks were unwilling to invest heavily in infrastructure.

**Future prospects**

In the aerospace business, several International Aerospace Organisations are searching prospects of developing relationships with the Indian manufacturing sector. Global customers are presently in the course of gauging the delivery and technological potential of the Company and orders have been received from three customers for small quantities which are at different stages of execution. Based on this assessment of both the Company and also the advantages of doing business in India, with Indian manufacturers, the aerospace components business may grow significantly in the coming years. However, in the near future, this sector is expected to observe moderate to low growth due to the raise in global oil prices and general slowdown in the world economy as also the time essential to build self-confidence in the Indian manufacturing sector. Delays in large projects for new aircrafts by the leading OEMs have also affected the sector. This business is expected to have a long gestation period since the business development of composite component suppliers closely tracks the development cycle of new products by OEMs. Component manufacturers are expected to set up facilities in advance of securing any commitments from OEMs and this increases the risk for component manufacturers like Company 8. Towards this, the Company has started augmenting its facilities and manpower, and aims to be a leading designer and manufacturer of sophisticated Aircraft parts and sub-assemblies in future. The company has obtained accreditation from the National Aerospace and Defence Contractors Accreditation Programme (NADCAP), becoming the only composites company in India to get this. The funds for the expansion have been provided by the promoter viz., Parent company Limited through advance against equity. The Company has also initiated talks with banks to raise long term funding for its expansion plans.

Company 8 and The Advanced Composites Division of National Aerospace Laboratories (NAL ACD) have got into a contract for a joint understanding for the growth of Advanced Composites for national and international aircraft plan. This contract is quite broad in its capacity and it seeks to envelop all the facets of aircraft components and components from conceptual design to initial
item production, sanction as well as commercial production. This partnership accord was proclaimed at SIATI's 15th annual meeting which was held in Bangalore on 14th February 2009.

Dr. C. G. Krishnadasan Nair, President SIATI, who encouraged the discussion between the two organisations initially, congratulated them on this partnership and urged for greater synergy between industries in order to achieve greater indigenisation. National Aeronautical limited aeronautical agency (NALACD) has pioneered the development of advanced carbon fibre composite components and assemblies for aircraft applications in India. It has made significant contribution to prestigious national programs such as ADA's LCA (Light Component Aircraft) Tejas, NAL's Saras, and many other defence and space programs. It has also rendered repair technology services to IAF involving metal composite hybrid repairs resulting in extension of operational life of aircraft in the fleet.

Company 8 has established contemporary facilities for the production of advanced composites in the nation and aspires to be a main competitor in the manufacture of advanced composite components for aerospace application. It is a strategic provider of aerospace components to both HAL and ISRO and has started its exports to global aviation organisations. Company 8 is the only company to obtain NADCAP certification for aerospace composites. Mr A.K.Vora, Vice Chairman, Company 8 said, "Tata Advanced Materials has over the last couple of years embarked on significant investments in creating world class facilities. Today I am very happy to say that we have a line of autoclaves, a line of CNC machines, Laser cutting machines and lots of other machines in the very modern facility that now exists at Jigni, Bangalore". "Tata advanced materials' vision is to become, very soon, a tier one and even go beyond that. I have no doubt in mind that this cooperation will be mutually beneficial to both NAL and Company 8 and it will be greatly beneficial to the aerospace industry in India and the nation as a whole, headded.

Exports would be a chief driving force, particularly in the aerospace segment. In addition to this binding with Boeing, Goodrich and P&W, was long-established and a contract with Saab Aerostructures was prepared. Many more such bindings are in the channel for the business. The business foresees that exports would contain 60-70 per cent of returns in the next five years. The corporation of late signed a MoU (Memorandum of Understanding) with the advanced composites division of National Aerospace Laboratories, by which the business would be the
production centre for the goods planned by them. This MoU also gives them the accountability to market their capacity worldwide.

The business has an industrial association with CPE Oy, a Finnish corporation, to produce pioneering 360Â° bulletproof vests. In addition, the business has contract with raw material traders for know-how contribution on joint product improvement. Most of the companies long-term business contracts with both Indian and foreign aerospace organisations consists a obvious conformity on knowledge transfer for production. Finally, the Memorandum of Understanding with NAL offers a prosperous stream of know-how in the field of advanced composites that could be explored.

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.