CASE STUDY
RALLIS INDIA: THE TURNAROUND STORY

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Introduction

Rallis India is one of India's leading agrochemical companies, with a comprehensive portfolio of crop protection chemicals, seed varieties and specialty plant nutrients. It has an extensive nationwide distribution system supported by an efficient marketing and sales team. The company has marketing alliances with several multinational agro-chemical companies, including FMC, Nihon Nohyaku, DuPont, Syngenta, Makhteshim Agan and Bayer CropScience.

Rallis India's business has been through steep highs and lows in the last 10-15 years. The company's fortunes have yo-yoed up and down, its range of business areas have widened and narrowed dramatically, and it has experienced significant changes in its economic environment. Internally, it has faced diverse issues and problems such as spiralling wages, under-productivity, competition from imports and multinational companies (MNCs), from the '80s onwards. In the post-liberalisation economy, Rallis's businesses underwent strong pushes and pulls, culminating in a phase of heavy losses in 2000-03.

To combat the downward trend and turn itself around, the company explored different avenues to sustain itself, such as a focus on the core business of agrochemicals, balance sheet restructuring, divestment of non-core businesses, sale of non-performing assets and working capital management. The strategies were successful; the company has been making profits and exhibiting steady growth since 2003-04.

Says Rajiv Dubey, Managing Director of the company during 2001 to 2003, the company's loss making years, "Business processes and organisational structures are necessary, but they are not enough. In the long run, it is the human will and spirit that breathes life into the organisation." According to Mr. Dubey, the turnaround story of Rallis is "a story of commitment and the drive to succeed" that has been written and lived by the company's 2,300 employees.

Section 1: The backdrop

Rallis: Empire and after

The history of Rallis can be traced back to the days of the empire, when a company called Ralli and Petrocochino was established in 1823 in London with operations at five different locations - Tabriz, Constantinople, Marseilles, London and Manchester. In 1851, Pandias Stephan Ralli, head of the Ralli Brothers firm, decided to go into the business in India. The firm began its Indian operations by buying full-pressed jute bales from press owners in Kolkata. The jute business earned millions of rupees in revenue for the firm and continued to retain its edge until the 1900s.

In 1861, during the American Civil War, the firm established a unit called Ralli Brothers in Bombay (now Mumbai), under the management of Pandias Theodore Ralli and Ambrose Theodore Ralli. The firm of Ralli Brothers grew rapidly until 1866 when the market experienced a cotton crisis. That year, it was reconstituted under a strong management established in London, and with its sights set on Indian trade.

In 1882-83, Ralli Brothers began trading in opium from Bengal, a trade in which they retained leadership until the sub-continent was partitioned in 1947. In 1902, the firm moved south to begin business in Pondicherry and Madras. It then entered the groundnut business and extended operations to Gujarat and Kathiawar. In 1929 came the American economic crash that led to a world currency crisis. The stagnation in the world economy and the inflated value of the rupee dealt a severe blow to India's exports and to Ralli Brothers. Subsequently, the firm was converted into a private limited company under the name of Ralli Brothers.

Late in the year of 1931, Ralli Brothers closed down its operations in India after 80 years of existence. The business passed into the hands of Argenti and Co, who were agents for the firm. Rallis was reborn in India on August 23, 1948 under a George Euthymopoulo who was the Chairman and Managing Director. The manufacture of fertilisers and pesticides marked the beginning of the company's foray into agrochemicals. In 1951, the company went public and its shares were oversubscribed.

In 1955, the Rallis head office was shifted from Kolkata to Mumbai. A 50:50 joint venture was established in India for selling Wolf portable electric tools. In 1957, Rallis took up the entire holding in Rallifan and acquired the whole of the WT Suren /TCF equity. From 1958 to 1961, the company made higher profits each year. Manufacturing of single super phosphate was started.

In June 1962, Fisons and Tatas became the Chief Shareholders of Rallis India. During the year 1962-63, fertilisers and pesticides became a full-fledged division. In August 1981, the company's era of cotton trading came to an end. The company then ventured into engineering and pharmaceuticals. A pharmaceutical factory was established in Ankleshwar with a licence to produce five new drugs. By the end of the '80s, overheads were spiralling upwards due to higher wages and several factories that were under-productive. The pharma and engineering businesses began to lose heavily. From 1990-94, the company refocused its activities, by shedding all its engineering businesses, selling its share in Boeringer Mannheim and shutting down all its pharma formulation factories.

This historical sketch of Rallis provides the reasons for its wide product spread, and also an understanding of why it chased too many businesses without developing a strong central core.

The global pesticide industry

Agrochemicals are a cyclical industry requiring an enormous amount of understanding to manage the complexities involved. The global market for chemical pesticides and other agrochemicals was estimated at around $26.71 billion in 2003, with a growth rate of 6.2 per cent. Of this, herbicides comprised 44 per cent, followed by insecticides (27 per cent), fungicides (20 per cent), and others (9 per cent). Since 1990, when the world market stood at $23.17 billion, the industry had grown at a low annual average rate of 1.1 per cent. In 2003, market conditions turned more positive mainly because of unfavourable climatic conditions that affected north European countries, Canada, India, Australia and many parts of Asia. The major factors that affected the market were a general increase in commodity prices, recovery from drought in Canada, India, Australia and Asia, the 2002 Farm Act in the US and the mid-term common agricultural policy (CAP) reform in the European Union (EU) that gave farmers greater security on incomes.

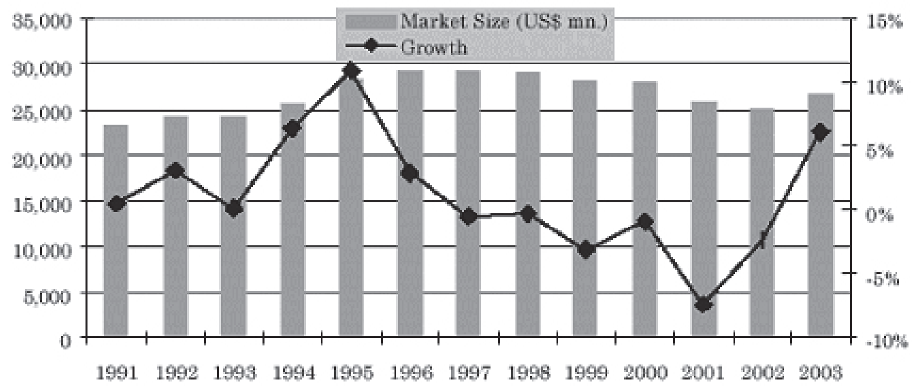

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Fig. 1: Global pesticide market, showing size and growth rate

Ups and downs: The last decade has seen the market for chemical pesticides undergoing rapid changes (see Fig 1). The drop in the market can be explained partly by changes in crop prices, greater efficiencies in the use of pesticides, improvements in pest management practices and technology, increased adoption of genetically modified crops, and Integrated Pest Management (IPM) techniques aimed at reducing pesticide use.

The global agrochemicals market is estimated to have recorded positive growth during 2004 and recovered from the impact of unfavourable factors that affected the market earlier. Normal weather conditions benefited agrochemical usage, and economic recovery continued to revive the agricultural economy. In Asia, while deficit rainfall conditions affected demand, the Chinese government called for increased grain production and started paying subsidies direct to cereal farmers.

Land is key: There is a boom expected in the global pesticide market and new insecticides, herbicides and fungicides are being introduced, alongside conscious efforts to minimise hazards to human beings and the environment. World population is steadily increasing along with demand for food; the most important factor that affects the viability of meeting increasing food requirements is availability of arable land. Due to an increase in population levels, the level of arable or cultivable land has been going down in terms of both quality and quantity (see Fig 2). The quantum of arable land available per capita in 1995 was 0.27 hectares. It is estimated that by 2025 the availability will be only 0.21 hectares. In such a situation, agrochemicals will play a major role in increasing the productivity of land.

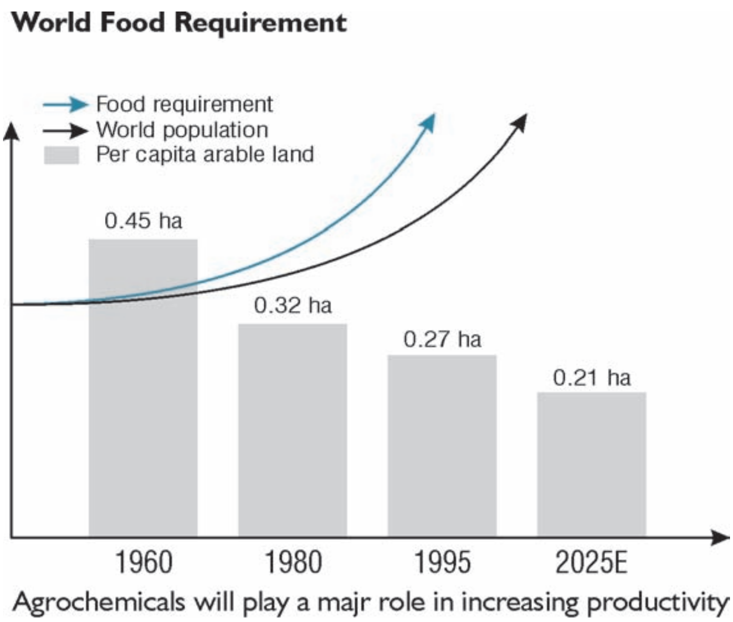


Fig. 2: Relationship between population, food requirement and availability of arable land

Tough competition: The industry has seen a fair amount of competition in the last decade with several major companies consolidating for strategic reasons - to achieve a competitive edge over others, ease of market entry, gaining technological advantages, acquiring market share etc.

The six major consolidated companies are DuPont, Monsanto, Syngenta, Dow, Bayer and BASF which together had 73 per cent market share in 2002, 81 per cent in 2003, and 77 per cent in 2004.

- Syngenta had the major market share after overtaking Bayer as market leader. Between them they controlled 37 per cent of all agrochemical sales.

- During 2000-04 Bayer grew by 172 per cent, through the takeover of Aventis and entry into genetically modified technology. In the same period, Syngenta grew by 2 per cent.

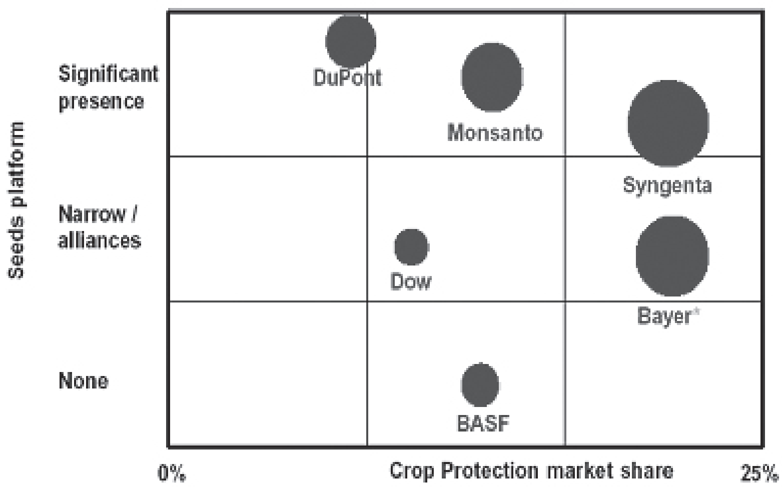
- BASF grew by 86 per cent (due to high sales of fungicide and insecticides, entry in to Latin America and takeover of Fipronil) during the same period.

- The sales of Monsanto dropped during this period because of its focus on genetically modified products and seeds.

An analysis of the major players in the agrochemicals sector can be seen in Fig 3. All the major companies pruned their portfolios to avoid cost of re-registration (all pesticides have to be registered with a committee before they are approved for use). For example: BASF cut its list of actives from 300 to 170 during 2000-04; Syngenta had only 17 actives worth US $100 million each by 2006.

Seeds fuel growth: All the six major companies were into the seeds business and genetically modified technology.

- Monsanto bought Seminis and became the largest seed company in the world.
- Syngenta's genetically modified crops accounted for 3 per cent of sales, with other seeds accounting for an additional 16 per cent of sales.
- DuPont bought Pioneer Hibred.
- BASF and Dow expanded into the seeds market.



*pro forma, post remedies,

Source: Philips McDougall, Syngenta

Fig. 3: Analysis of major agrochemicals companies showing market share for pesticides and dependence on seeds business in 2004

Looking at the industry from the Rallis perspective, the major players in the global pesticides industry were consolidating businesses and this had an enormous impact on the way they competed. Rallis was not ready to face this level of tough competition, as it had no patented products of its own. It depended upon selling formulations based on active principles introduced by the global players.

The Indian pesticide industry

The Indian pesticides and agrochemical sector had estimated revenues of Rs. 40 billion during 2003-04. The same year, the sector also exported a considerable amount of production, amounting to about Rs.17.46 billion, representing 0.8 per cent of India's total exports. The industry was fragmented with about 30-40 large manufacturers and around 600 formulators. The organised sector comprised of multinational corporations and Indian players. Some of the major international players in India were Monsanto, Bayer and Syngenta while domestic companies were United Phosphorus, Excel Industries and Rallis India.

Domestic vs. MNC: Historically, Indian players in the pesticides and agrochemicals market have focused on marketing generic and off-patent products, whereas the multinationals have focused on high-end specialty products. Indian companies, playing to their basic strength i.e. low cost operations, have focused on applied research, which includes developing processes to manufacture off-patent products, determining more effective methods of delivering existing products and new formulations of generic products. Generally speaking, Indian manufacturers lack the financial and technical resources to undertake basic research.

On the other hand, MNCs have dominated the market for patented products. They have the advantage of a developed research and development (R&D) pipeline and superior financial resources. Inspite of the threat from sales of generic products, MNCs have introduced quite a few of their top-selling global products in the Indian market. Monsanto, for instance, holds Indian registrations for almost the entire set of its global brands. In India, MNCs have tried to guard against the cyclicality of the domestic market, by identifying and sticking to niche categories, crops and markets. They have worked to strengthen the linkages with farmers through extension and advisory services. Many MNCs in India have entered into supply arrangements with their base country to take advantage of the low costs in manufacturing from India-based facilities.

The competition is not limited to MNCs alone. Two factors - the not-so-heavy capital-intensive nature of the industry and the government policy of encouraging the small-scale sector - have led to intense competition in the sector. Distribution reach, new product launches, and ability to extend credit to the farmers are the factors that have influenced sales.

Geography plays a role: The Indian crop protection or agrochemicals market is cyclical and dependent upon many factors, such as the quantum and distribution of monsoon, acreages under various crops and pest intensities during the season. Some of the main disadvantages of the crop protection market have been the limitation of product range and geographical diversity.

Recent years have seen some encouraging developments in the field - almost total self reliance with imports constituting less than 5 per cent of the total consumption of about 70, 000 tonnes per annum; indigenous development of several new products and processes; and penetration into overseas markets with exports already having touched a level of about Rs. 17.46 billion (see Table 2). However, there is still a long way to go with Indian per capita consumption, which is very low (475g per hectare) as compared to developed countries like USA (3kg per hectare) and Japan (11.8kg per hectare).

India is still a large potential market for agrochemicals and pesticides. The country has a geographical area of 328.73 million hectares; of which reported area for land use is 306.04 million hectares. Figures for 2004 show that the net area cultivated is about 142.60 million hectares i.e., about 46.6 per cent of the total reported area. Since nearly 50 million hectares are sown more than once, the cropping intensity works out to 135 per cent. Forests account for about 68.97 million hectares i.e., 22.5 per cent of the total reported land area. Also nearly 13.97 million hectares are cultivable wastelands and 9.91 million hectares are fallow lands. Only about 30 per cent of the total cropped area is irrigated; the remaining area is rain fed. Available statistics show that only about 66 per cent of the gross cropped area is under food crops; the rest is used for non-food crops. Exports of products such as textiles, fruits and vegetables are expected to increase with the growth of Indian agriculture and the demand for agrochemicals.

Markets: There are new trends in the marketing of agricultural products at the consumer level - environmental changes, consumer's expectations, consumer awareness as also government norms are constraints upon the extensive use of, as well as the quality of agrochemicals used. These trends are being seen worldwide and impact the sales of agricultural products.

Table 1: Indian agriculture scenario in 2004

	Global Production (MT)	Indian Production (MT)	Share	Rank
• Rice	600	95	15%	2nd
• Wheat	600	75	12.5%	2nd
• Vegetables	600	90	15%	2nd
• Fruits	400	45	10%	2nd
• Milk	600	90	12.5%	1st

In India, the agrochemicals industry shows some key aspects:

- India has a large agricultural economy, which uses agrochemicals, yet the average consumption rate is very low (half of world average).
- Market size is of the order of 100,000 metric tonne with an annual growth rate of 10 per cent per annum. Consumption varies depending on crop and region.
- Cotton and rice are the two major pesticide-consuming crops, accounting for more than 65 per cent of the market.
- There are two types of producers: Technical (about 40 enterprises), and formulators (above 500 enterprises).

Table 2: India's exports of crop protection chemicals, by value and volume

FY	2000	2001	2002	2003	2004 (9M)	2005
Value-Rs. million						
Insecticides	8,942	10,853	12,197	13,305	14,562	10,751
Fungicides	463	684	722	814	1,362	1,558
Herbicides/Weedicides	276	443	381	436	424	383
Others	370	173	264	320	1,107	718
Total	**10,050**	**12,153**	**13,565**	**14,875**	**17,456**	**13,410**
Volume-MT						
Insecticides	31,156	36,162	37,816	42,978	49,072	35,255
Fungicides	4,451	6,536	7,515	7,682	12,083	10,568
Herbicides/Weedicides	2,598	3,234	2,237	2,093	3,032	2,641
Others	2,446	1,997	2,517	2,940	4,794	3,601
Total	**40,651**	**47,929**	**50,085**	**55,693**	**68,981**	**52,066**

Synthetic pesticides: Farmers have been practising pest management ever since the first man discovered how to grow crops. It was only in the middle of the 20th century that the pesticide properties of synthetic chemicals were discovered, resulting in a transformation of agricultural practices. For example, the chemical dichlorodiphenyltrichloroethane (better known as DDT) was discovered to be an insecticide and was used widely in agriculture and for public health programmes. Soon, other insecticides, herbicides and fungicides were developed. Their large-scale usage in farming in industrialised countries, led to large increases in production.

The importance of pesticides and other crop protection agrochemicals in India derives from the fact that that we are an agrarian society. Agriculture is the backbone of the Indian economy and contributes 20 per cent of India's GDP.

At present, around 200 pesticides have been registered in India. A registration committee (RC) has been constituted under Section 5 of the Insecticides Act, 1968, whose function is to register pesticides after scrutinising the formula, verifying claims of usefulness and safety to human beings and animals, specifying precautions against poisoning and so on. The committee has evolved exhaustive guidelines / data requirements to assess the efficacy and safety aspects of these chemicals.

The evolution of Indian pesticides can be traced back to the 1980s. Prior to that, the awareness and acceptance for the use of agrochemicals was not very significant. Until the early 1990s, the Indian agrochemical industry showed poor growth. The trend of using agrochemicals and pesticides for higher yields took hold from the mid 1990s onwards, i.e., in the post liberalisation period. There was constant growth for nearly a decade, up to 1998, due to the change in economic policies and governmental efforts to encourage use of agrochemicals and pesticides in order to improve the quality and production of the nation's agro products. Thereafter, the period from 1998-1999 onwards (after the WTO / IPR commitment) showed a lot of turbulence for the pesticides business (see Fig 4).

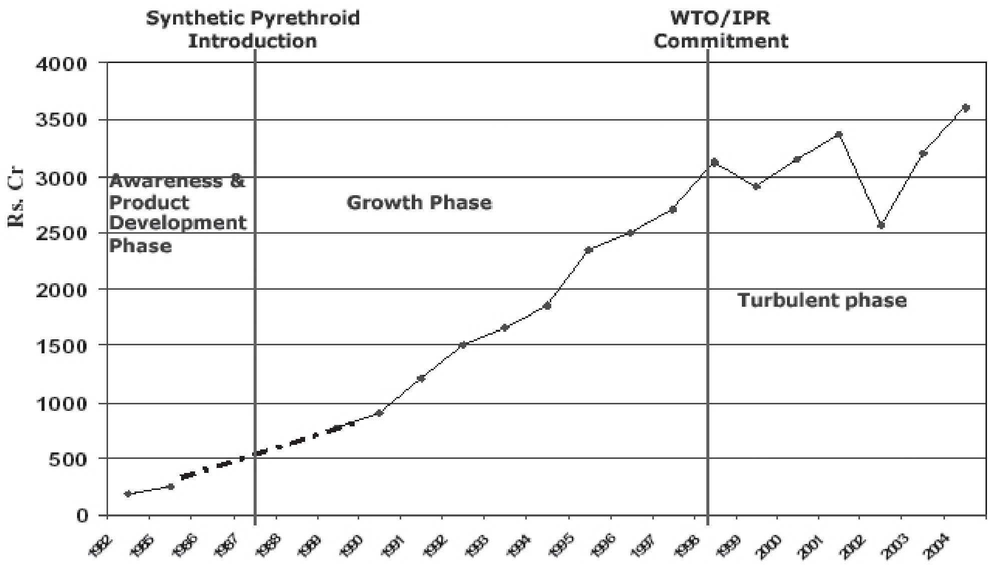


Fig. 4: Trends in pesticide consumption in India

Market shares:

In India, market shares of agrochemical products vary depending upon many factors. One important factor is the company's approach towards the market and end consumers. Companies practise different strategies that can be categorised as follows:

- New product and technology oriented: Syngenta, Bayer, BASF, DOW and DuPont
- Market access oriented: Rallis, Pesticide India and Nagarjuna
- Low-cost production and export oriented: UPL, Excel, Gharda and Meghmani

The Indian market is changing, with domestic manufacturers (small and major companies) improving their share of the market. In 2004-05, multinationals held a market share of 55 per cent, large Indian companies held 30 per cent, and small formulators 15 per cent (see Fig 5). It is estimated that in the future the market share of MNCs will come down.

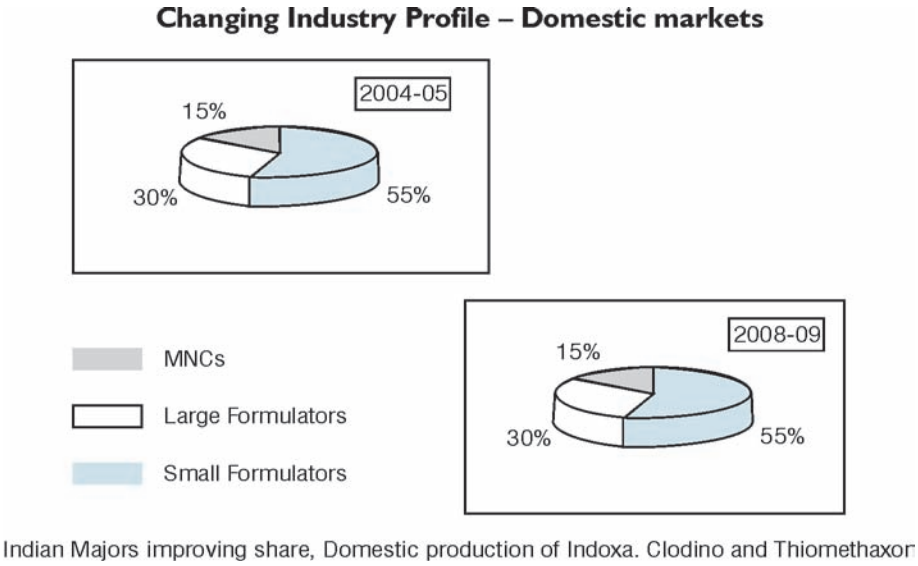


Fig. 5: Market shares of MNCs and Indian companies

Section 2: The Rallis India story

Rallis India's main areas of business are product development, manufacture and marketing of crop protection and crop nutrient agrochemicals - solid and liquid pesticides, fertilisers, leather chemicals, etc. Other activities include the manufacture and sale of pharmaceutical products including tanning materials, and services like farming management services, tolling manufacturing and sponsored research. The company's largest and most profitable business is the agro-business segment, which is engaged in the development, manufacture and marketing of pesticides.

In the domestic market, Rallis India holds a fairly strong position. The company has several advantages, among which are branding capabilities and distribution reach throughout the Indian market. It holds a product portfolio that is customised to the requirements of the land and crops in India. It also has an extensive distribution channel that is supported by initiatives such as the jeep campaign, farmer meetings, etc. Rallis has a near accurate knowledge of Indian farm requirements and farmers' needs and expectations. Plus, as a Tata company, it holds credibility in the Indian market.

R&D: Rallis India has invested heavily in research and development activities. Within the sponsored research sector, the Rallis research centre (RRC) caters to the growing needs of the agrochemical industry. This centre conducts studies on bio-efficacy, residue analysis, analytical and product chemistry, ecotoxicology and regulatory toxicology for in-house needs as well as sponsors from across the world. By regularly developing new products, it has given Indian farmers top-of-the-line eco-friendly agricultural products.

Strong branding: Rallis India has a wide range of insecticides, fungicides and herbicides, which have been designed to suit Indian crops, with emphasis on rice, cotton and vegetables. Some of Rallis's popular products are fungicides such as Contaf, Contaf Plus, Master and

Fujione; weedicides such as Fateh, Tata Metri, and Tata Panida; and insecticides such as Daksh, Tata Mida, Reeva, Asataf, Manik, etc. Rogor, an old Rallis brand of insecticide, is still one of the strongest brands in the country.

Product range: Rallis's seed portfolio covers cereals, oilseeds and fibre crops. The company produces and markets several hybrid varieties of maize, paddy, wheat, cotton and mustard. Its fertiliser portfolio of imported 100 per cent water-soluble specialty fertilisers provides all-important nutrients required by plants. These are highly suited for foliar spray and fertilisation through micro irrigation. The company also supplies a range of essential micronutrients for a wide range of crops and soil. Rallis manufactures mineral supplement products such as phosphoryl, which is used in the poultry industry and for livestock.

Table 3: Rallis's strengths in comparison with other Indian companies, 2004

	R&D		Production		Marketing			
Company	**Chemistry**	**Development**	**Tech**	**Cost**	**Portfolio**	**Field**	**Distribution**	**Company**
Gharda	5	3	4	5	4	1	3	3
UPL	4	3	4	4	5	2	2	2
Excel	3	2	4	4	2	3	3	3
Cheminova	3	2	4	4	3	2	3	2
Indofil	2	3	3	3	2	3	2	3
Nagarjuna	3	3	3	3	3	2	3	2
Rallis	3	5	4	3	5	4	4	5

1 = Very Weak, 5 = Very Strong

The ratings are internal estimates with Indian perspective

Table 4: Rallis's strengths in comparison with multinational companies, 2004

	R&D		Production		Marketing			
Company	**Chemistry**	**Development**	**Tech**	**Cost**	**Portfolio**	**Field**	**Distribution**	**Company**
Bayer	5	4	5	3	5	4	4	4
Syngenta	5	4	5	4	4	5	3	4
BASF	4	3	4	3	2	3	2	3
DOW	4	2	2	2	2	2	3	3
DuPont	4	3	2	2	2	3	3	3
Rallis	3	5	4	3	5	4	4	5

1 = Very Weak, 5 = Very Strong

The ratings are internal estimates with Indian perspective

Turbulent times

Rallis in the mid 1990s: Post liberalisation, Rallis India had gained substantial proficiency in the designing and commissioning of chemical plants, with the agrochemicals division entering the field of project exports. The engineering business, as well as the shareholdings in the engineering subsidiaries, was sold off. In the same period, the new facility at Aurangabad started operating and the pharmaceutical division diversified into ayurvedic products. Rallis India went in for a merger with Accumax Ltd and a subsidiary company, Ahura Consultants & Investments, was also brought under the same entity. The company's commercial paper was awarded an A1+ rating by the credit rating agency ICRA.

New businesses: The mid 1990s period was when agrochemicals performed well and the company introduced a range of other agro products. Rallis successfully introduced quality hybrid seeds in collaboration with Cargill Seeds of USA and Bejo Zaden of the Netherlands. The company's pharmaceutical division was also growing at a decent pace. Rallis India signed a long-term agreement with Phytopharm Plc, a British drug group, to develop products based on medicinal plant extracts. In the late 1990s, Rallis India went into a marketing alliance with the world's largest producer of fertilisers, Norsk Hydro of Netherlands, for marketing specialty fertilisers.

It developed a 600-acre farm near Nashik in Maharashtra with technical collaboration from the Mitsubishi Corporation of Japan. The company was also in the process of developing ventures with farmers, with plans to introduce international irrigation and sericulture techniques to improve yields. It set up a new company called Rallis Farm Management Services to provide advisory and technical services in the agri-sector.

The impact of the Indian government's economic liberalisation policies on India's chemical industry has been positive; the industry grew to a size of $28 billion in 1993. It constitutes more than 6 per cent of India's GDP and is a major exporter of agrochemicals, pharmaceuticals and specialty chemicals.

Threats: With liberalisation, import duties on chemicals have come down significantly, though in a gradual manner. On January 1, 1995, the World Trade Organization (WTO) came into existence. India was a signatory to the agreement, and became a member of the WTO from its inception. In the chemicals sector, products have been imported in a big way and have out-priced Indian products to such an extent that if Indian manufacturers are not able to compete with them on price and quality, they will have to shut shop. This has been a major threat to the Indian industry, and therefore to the employment situation. Another more direct threat lies in the entry of MNC players into the Indian market. Structural changes in government regulations and taxes have also had a major impact on the industry. Small players in the domestic market have proved to be equally competitive in the marketplace.

The late 1990s

The impact of economic liberalisation on Rallis India showed in a decrease in its revenue growth rates from 27 per cent in 1995 to 4 per cent in 1998. To combat this, the company decided to diversify its product portfolio and venture into a number of new businesses.

- Rallis entered the animal healthcare business to focus on feed additives, preventive care and therapeutic segments.
- Based on its performance, Rallis was highly rated by the credit rating agency ICRA.
- The company posted net sales of Rs. 12,061.2 million and a net profit of Rs. 230.3 million in 1997-98, and declared a dividend of 50 per cent for the year.
- Rallis increased its market share to 13 per cent in pesticides. It marketed herbicides under a joint marketing agreement signed with Monsanto Chemicals in July 1998. The same year, it reopened the pesticides facility at Lote Parashuram in Maharashtra (which had temporarily stopped production due to insufficient effluent treatment facilities).
- One tenth of its people were involved in R&D activities by mid 1998.
- It set up Rallis Farm Management Services (RFMS) under which it offered services for improvement of yields, seed procurement, soil fertility, agro economy, farm management and financing to small and medium sized companies, farm owners and agriculturists in October 1998. RFMS offered its seed procurement services to the Dutch company Bejo.
- Rallis India had to borrow heavily as the disbursements of the subsidy on fertilisers were delayed in 1998.
- The company acquired Oriental Seritech in November 1998. Oriental, previously owned by Tata Industries, was the world's largest integrated silk producer and pioneer of the bivoltine silk technology in India. Rallis undertook research in farming and production of silk yarn through Oriental Seritech.
- It acquired another Tata company, Oriental Floratech (which grew roses and carnations for export to Europe, Middle East and the Far East).
- Rallis brought most of its agro businesses under a single entity in the subsequent year.
- In a move to consolidate its herbicide range, Rallis became the general co-distributor for Monsanto USA in March 1999 and marketed its entire range of products.
- Rallis took up a 40 per cent stake in Caps of Zimbabwe for a consideration of Rs. 500 million and launched an ayurvedic range of products in Zimbabwe. Later during the year, Exim bank acquired a 10 per cent stake in Caps.
- Rallis entered into an alliance with Kenko of Japan, introduced a series of ayurveda-based products and operated as the marketing agency of several firms, including Madras Fertilisers, Cargill and Norsk Hydro.

- It signed a contract with FMC in August 1999 for producing and marketing some of FMC's agrochemical products. The next year, it entered into marketing alliances with the Dabur group and Sanat Products to distribute herbal over-the-counter products in Africa and Sri Lanka.

By the end of the decade, Rallis had grown manifold. It had explored new ventures to earn revenues and divested its non-profitable businesses, tie-ups and collaborations. Whenever there was a slow-down in the industry, Rallis shielded itself from a drop in volumes by introducing new products. The company changed its focus to rice, vegetables, pulses and plantations, and launched new pesticides (Koranda and Marshal) in 1999-2000. Rallis Farm Management Services trained farmers across the country on good farm management practices. It set up an interactive website (www.rallikisan.com) targeted at farmers, to create awareness about Rallis products and generate more interactions with the company. Rallis India along with Tata Chemicals set up the Tata Kisan Kendras (TTK) in 1999; these were one-stop shops that leased farm equipment, provided high-yielding seeds and advised farmers on crop selection, rotation and disease prevention methods.

Rallis goes downhill

With stiff competition in the marketplace and growth rates slowing dramatically, Rallis began to feel the pressure on its bottom line. It incurred a loss of Rs. 255.8 million on sales of Rs.10, 889 million for 2000-01. Rajiv Dubey had joined the company as CEO in August 2000, with a mandate to improve the company's bottom line, which showed sluggish growth due to unfavourable market conditions. The immediate objective was to achieve effectiveness and efficiency of resources utilisation, and increase profitability. Mr. Dubey formed teams in all the divisions, including pesticides, fertilisers and seeds, with the help of Tata Strategic Management Group (TSMG), to make field survey reports.

This initiative helped in identifying and evaluating the business environment, strategic issues, and the company's strengths and areas for improvement, opportunities and growth prospects. The study also helped the company focus on crisis areas such as inefficient asset utilisation, share value, weak customer orientation, and approach to people-related problems, and lack of transparency.

In 2001, four external consultants were taken on board to help restructure the company's operations, namely Accenture, Renoir Consultancy, Eicher Consultancy Services and TSMG. Accenture worked on the shop floor to enhance productivity and improve supply chain management. Renoir was brought in to strengthen sales and distribution channels across India. Eicher worked closely with the company on the organisational restructuring model and in human resources related activities. TSMG had been working with Rallis on its long-term strategy development.

Restructuring of Rallis

With problem areas highlighted by the study, the management realised that the company needed a strategic plan that had to be implemented and continuously monitored. The implementation, monitoring and controlling of the plan needed to be based on a framework that would direct strategies towards the goals of restructuring. The management decided to use the Tata Business Excellence Model (TBEM) that has been adapted from the well-known Malcolm Baldrige methodology. The model was implemented under the aegis of Tata Quality Management Services (TQMS), a Tata organisation mandated to help Tata companies achieve their business objectives through specific processes that would focus on revitalising product or business portfolios, improve finance or cash management, and achieve economy throughout the value chain. There were various plans under TBEM which were area-specific, such as

- TBEM Safal (Strategic actions for absolute leadership) for sales and marketing
- TBEM Prerna (Propelling Rallis towards excellent results now and always) for manufacturing
- TBEM Pragati (People related actions for growth and achievement through transformation and involvement) for human resource (HR) development

Changes at all levels: All these plans played a major role in restructuring the company. Under TBEM Safal, the entire sales and marketing function was restructured and systems set up for distribution, depot management and proactive selling. Costs were reduced to a large extent and the decision-making process was made more systematic and less intuitive. This resulted in lower discounts, promotion costs, debtors and bad debts along with higher volumes and improved sales mix.

TBEM Prerna focused on minimising manufacturing costs through processes such as yield improvement, solvent substitution, procurement logistics, etc that could lead to major savings every year. New products and ideas were no longer taken up in haste; instead they were evaluated on specific criteria - opportunity, feasibility, capability and commercial viability - before any investment in R&D.

The company's HR initiatives focused on communication, de-layering and empowerment. Mr. Dubey, the CEO, held the view that no initiative, regardless of its merit, could succeed without the enthusiastic participation of the people in the company. A platform was created where employees could come forward with new ideas and suggestions on improvement of products, services and processes. These ideas were evaluated and implemented and the proposers were rewarded, thus increasing employee involvement. The restructuring exercise also included reducing the work force.

Another unique HR initiative was 'Manthan' where Rallis concentrated on building relationships with its people. This was a series of two-day, large-scale, interactive meetings held at different locations, where senior management met all categories of stakeholders, including workers, customers, channel partners, suppliers, competitors and shareholders. The objective was to communicate the strategies and action plans, and track any difficulties or concerns. The Manthan initiative led to the start of the 4-S movement (Sampark-Sambandh-Samruddhi-Santushti).

Improving efficiencies: Rallis's restructuring exercise was aimed at reducing debts and emphasising long-term economic value addition and return on capital investments. The company also went through a phase of mergers, disinvestments, closure of non-performing units and financial restructuring. The pharma division was sold for Rs. 420 million to Shreya Impex, part of the Moscow-based Shreya Corp. Exiting the pharma business brought down debts from Rs. 4,256 million to Rs. 3,401 million and working capital requirement from Rs. 3,353 million to Rs. 2,786 million. It had already exited from its cement and paints businesses and cut staff at the managerial level, and suspended operations of two subsidiaries, Oriental Seritech and Pazchem, to check losses.

In 2001, Rallis merged five of its wholly owned subsidiaries - Ralchem, Rallis Finance and Investment Co, Rallis Hybrid Seeds, Rallis Farm Management Services and Sankhya Garments - with itself so as to bring all agriculture related businesses under one roof. The company had a 15 per cent market share in the crop protection business but faced stiff competition from companies like the newly formed Syngenta India and MNC Aventis Crop Science. In the same year Tata Consultancy Services bought a 22-acre property located at Andheri, Mumbai from Rallis for Rs.1, 330 million.

With restructuring and related initiatives, Rallis posted a net profit of Rs. 203.6 million for Q1 2001. At the time, it had the largest distribution network in India with 4,000 dealers and 30,000 retailers. Rallis entered into an alliance with ICICI and Hindustan Lever Ltd (HLL) to help farmers in Madhya Pradesh and Haryana grow and sell wheat (for wheat flour) and basmati rice for export. Rallis and ICICI also tied up with the retail chains like Food World, Nilgiris and juice producer Sunsip for contract farming of fruits and vegetables in Karnataka in 2001.

The restructuring exercise made full use of information technology to facilitate communication both within and without the company, as well as through the launch of the company website. SAP implementation and improving the management information system were other major initiatives started at this time.

Record losses

In spite of the restructuring exercise started in 2000, Rallis showed a shocking loss of Rs. 773 million on a turnover of Rs. 8,851 million in the year 2002-03. Though some internal processes had improved, others had not, especially processes relating to customer management. Management started playing the blame game, with one group of the opinion that there was too much focus on market without adequate process and control systems and the other maintaining that there was too much focus on processes and too little on the market.

In an interview, Venkat Sohoni who took over as Managing Director of Rallis in 2003, explained the reasons for the company's poor performance:

- Production was in excess of demand. The company was saddled with unsold stock, large outstanding from the market and high working capital requirements. There was no proper forecasting of demand or planning of production.

- Higher interest costs and continuing expenses were detrimental to the profit and loss account. Not enough attention was paid to receivables. Credibility with banks was very low. Because of the poor cash flow, treasury was under immense pressure. Resource allocation was erratic.

- Though the company had around 4,000 dealers, co-ordination was poor and there was no proper policy for handling of expired stock. Expired stock levels were relatively high and dealers returned stock whenever they wished. The strategy for selecting distributors was not very clear.

- Plant capacity utilisation was low, quality of the product was not uniform, inventory level was high and maintenance was poor.

- The procurement team did not have enough bargaining power.

- The sales staff did not understand sales strategy.

- Attrition rate was very high. Management professionals were highly frustrated.

- The company did not have regular reviews to ensure coordination of all the functions.

- The company had no IT platform. Even the data on quarterly performance was produced late. There was poor information assimilation and collection of data took much longer because it was not organised properly.

- The board did not work coherently and there were severe differences among the directors. Corporate governance was completely neglected.

- Internal audit system was weak. There were cliques operating and in the absence of internal audits no corrective measures were taken. There was delay in consolidating the accounts.

Section 3: The turnaround story

The Rallis India business story can be categorised into four stages:

- Decline (covered earlier)
- Response initiation phase (started August 2003)
- Transition towards turnaround
- Turnaround

This section covers the next three stages of Rallis business history, from 2003 onwards.

The first steps

Rallis' huge losses in the previous years came as a shock to the business community mainly because the company was an old and well-established concern. The losses (of the order of Rs. 1,000 million including that of the six subsidiaries) made it imperative for the company to re-examine its future. The Tatas had a 48 per cent equity stake in the company. Tata Sons Executive Director R. Gopalakrishnan took over as chairman of Rallis in 2003. When Managing Director R. Dubey resigned with effect from July 12, 2003, Mr. Gopalakrishnan took up the challenge of putting Rallis India back on track. He had a clear plan in mind and a timeframe for the turnaround. Most important, the company needed a new chief, one who could take an objective view of the business.

In August 2003, the Rallis board approved the appointment of Venkat S. Sohoni as the new Managing Director. Mr. Sohoni had over 28 years of experience in the agrochemicals and pharmaceutical business, having worked with companies such as California-based Biosys, Novartis and Pharmacia.

In the meantime, Mr. Gopalakrishnan put in motion a series of initiatives to:

- Restructure the business and business processes
- Raise additional long-term funds to ensure the sustainability of the business
- Bring down costs and reduce losses
- Reduce borrowings and interest outflows
- Downsize the workforce
- Hive off some non-performing assets

The logic behind these initiatives was to first stop the company from bleeding losses, and then put corrective actions in place that would help to rebuild credibility within and outside the system. Rallis India was a prominent Tata Enterprise with Tata Sons holding 48 per cent stake. One of Mr. Sohoni's first tasks was to visit all the sites and explain to stakeholders that Rallis was as focused on people as it was on results. This message created an enormous amount of credibility amongst the employees and motivated them to work towards enhancing performance and reducing losses.

The turnaround plan

The turnaround of Rallis India is the outcome of planning, restructuring, corrective actions and initiatives, and the strategic alignment of all these efforts towards long-term business profitability and sustainability. At that point, Rallis' restructuring package required additional funds of as much as Rs.1, 000-2,000 million. Tata Sons, with a 48 per cent stake, was willing to invest in the company. Tata Sons subscribed to preference shares of Rallis thus injecting Rs. 880 million into Rallis in 2003 to reduce its high interest loans. J. M. Morgan

Stanley of Mumbai was appointed to work out the restructuring package. The package incorporated a three-step process for affecting a turnaround:

- Large scale cost reduction measures
- Increasing focus on the pesticide business
- Restoring the company's cash-flow

Having taken over as managing director on August 11, 2003, V. S. Sohoni prepared a new business plan that was approved in October 2003. The business plan envisaged alignment of the company with its proposed business goals. The initiatives taken by the Rallis senior management to push the company out of its turbulent phase can be graphically represented as a turnaround wheel (see Fig. 10).

The plan envisaged the following initiatives:

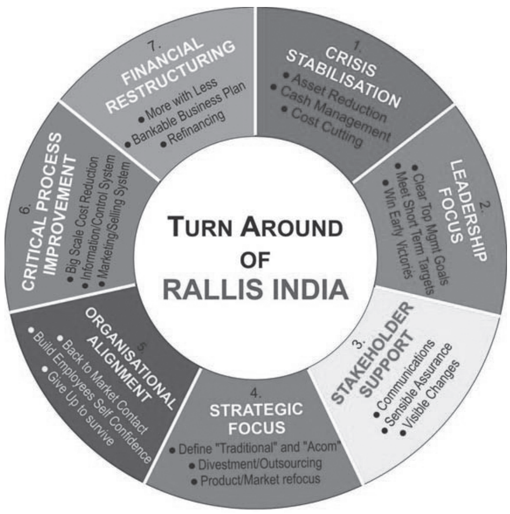


Fig. 6: The wheel shows Rallis turnaround strategies

1. Concentration on core business of agrochemicals

Rallis had been a leader in the domestic agrochemicals market for more than a decade until the merger of Bayer and Aventis. It had a number of strengths that could be leveraged for growth:

- Product portfolio
- Distribution reach
- Tata-Rallis image
- Knowledge of the Indian farmers
- Branding capabilities

Manufacturing: Rallis had its own research and development centres that worked to continuously improve manufacturing processes of important pesticides and intermediates by de-bottlenecking, improving throughput and reducing load.

Marketing: A new element in the marketing plan was to use innovative packaging for the agrochemicals to make it a key differentiator from the competition. Another marketing thrust was to start a series of farmer-centric activities to interact with customers directly. Earlier this had been left to retailers and distributors who were the main contact points for customers. These activities included focused farmer contact based on route plans, large farmer-centric campaigns, intensifying farmer meetings and setting up farmer help lines - all of which were aimed at conveying the benefits of Rallis products and emphasising the distinctiveness of the offerings. This initiative had two advantages - it helped Rallis understand customers while also educating them.

The third major initiative was innovative media usage. A series of ads were launched to enhance Rallis's brand image. The ads used an innovative concept (Dr. Vishwas) in advertorials that built credibility by sending the message that Dr. Vishwas could provide solutions to all pest related problems. This improved customer perception and confidence.

2. Financial restructuring

The financial health of Rallis had been poor due to several reasons:

- High interest outflow: There was a huge amount of liabilities and the effective rate of interest was 17-18 per cent. In 2002-03, Rallis India had an interest burden of Rs. 415 million.

- High inventory: Rs.1, 324.1 million.

- High level of receivables: The company had 4,000 dealers but no systematic collecting system; receivables were worth Rs. 2,433 million on a turnover of Rs. 8,851 million.

Rallis took several steps to improve its finances. The company's high interest convertible debentures were converted into preference shares. It acquired letters of comfort from Tata companies. It was able to raise a long-term loan for Rs. 750 million which was utilised to reduce outstanding expensive loans, resulting in a steep reduction in the interest cost which in turn reduced the cash outflow, a significant reduction of debtors and lower borrowings (Rs.1,200 million). The issue of preference shares worth Rs. 880 million resulted in a better debt: equity ratio. In 2004, Rallis was ranked 6th in Business India's Super 100 listing of companies on the basis of return on capital employed (ROCE). This was a dramatic rise from the previous year when its rank was 219th. Rallis's ROCE was 18.4 per cent in 2004 whereas in 2003 it had been a negative 17.48 per cent on consolidated basis.

3. Divestment of non-core businesses

The company took the decision to hive off the several non-core businesses that had been picked up over the years - such as gelatin, farm management services and knowledge management services - and to focus only on pesticides and agrochemicals. Rallis India sold the gelatin business to Sterling Biotech for Rs. 470 million in an all-cash deal. Farm related activities were sold to Tata Chemicals. Rallis decided to transfer the knowledge services business, which included the R&D centre at Bangalore, to another Tata Company Advinus Therapeutics. In the case of seeds, Rallis changed its business model: from being a pure seed distributor it moved to products with higher margins which were identified, sourced, developed and established under the Rallis brand name.

4. Sale of non-performing assets

Ralli House, a prestigious business house in South Mumbai, was sold for Rs. 560 million. The Rallis plant in Punjab and the regional office at Kolkata were sold. The receipts of the sales were used to reduce the company's liabilities.

5. Better working capital management

In the year 2002-03 Rallis carried inventory worth Rs. 1,320 million; by the next year this was brought down to Rs. 1,040 million. Similarly, sundry debtors were reduced from Rs. 2,430 million to Rs. 1,720 million. These steps helped reduce the pressure on working capital, the requirement for which was brought down from Rs. 2,114 million to Rs. 1,768 million. Rallis had a large number of dealers most of whom were merely stocking products rather than generating sales. The company realigned its dealer network and reduced the number of dealers from 4,000 to 1,500 and focused on dealers for pesticides. Rallis India recorded a growth of 39 per cent in sales of pesticides in Q2 2004 as compared to Q2 2003. The reduction in dealers had synergistic effects. It reduced inventory, made monitoring of stock movement comparatively easy, and positively impacted dealer morale and motivation.

6. Strategic alliances to strengthen the product portfolio

Rallis needed a broader, more balanced portfolio of product offerings and it also needed to improve plant capacity utilisation. For this, it entered into marketing pacts with international companies like Syngenta, Bayer and DuPont that strengthened its product portfolio, and manufactured chemicals and pesticide products for Syngenta, Bayer, DuPont, Dow Chemicals and FMC Corp. Rallis signed an agreement with DuPont for co-marketing of insecticides for bollworm. The company achieved about 30 per cent of its turnover through contract manufacturing and marketing of products of five multinational companies. These products - mainly insecticides, herbicides, and fungicides - were marketed overseas under the brand name of the multinational companies and were sold under the Rallis brand name in India. In 2003-04 Rallis generated over 90 per cent of its turnover from the pesticides business.

7. Limiting the number of factories

Rallis had too many formulation factories spread across India, resulting in a low capacity utilisation figure. Rallis decided to close down some of the facilities.

8. Developing a performance driven culture

Rallis had a weak performance assessment system where the links between business performance and individual performance measures were poorly correlated. To inculcate a performance driven culture, the leadership designed a performance management system with appraisal processes, adoption of Tata Leadership Practices, talent identification, rewards and recognition schemes, etc. Rallis also developed Innogate, an initiative that encouraged people to generate, capture and implement new ideas in marketing and production. The system, aimed at inspiring innovation, also enhanced the organisation's capability to share knowledge and ensured proper recognition of idea originators. The performance driven culture strategy had several prongs:

Firstly, the performance assessment system was made robust. Goal setting, alignment and cascading were done at all levels. A midterm review of appraisals was introduced. The performance assessment system involved key result areas (KRAs), competencies, employee development and objective feedback. The second pillar of the performance management system was an easily measurable and transparent appraisal process. A five point rating scale was used. KRAs were given 100 per cent weight age and stretch goals were introduced. This was followed by an increase in variable performance pay that was directly linked to measurable performance. This system brought in considerable accountability, objectivity and performance orientation.

9. Focus on communication through implementation of SAP

Rallis India, as a part of the project Saransh has developed business intelligence tools with the help of Microsoft. It has replaced its legacy enterprise resource planning (ERP) systems with SAP to make the company fit for e-business. Rallis is planning to integrate various applications to reduce cost and eliminate intermediaries.

To sum up, Rallis managed to turn its business around due to implementation of a series of measures aimed at sustainability:

- Rationalisation of the product portfolio
  - Reverse engineering to create new formulation by leveraging R&D
  - Alliance with multinationals so that product portfolio is complete at the market end
  - Improving the distribution system so that stocks are available when required

- Cost reduction in every possible process
  - Rationalisation of manufacturing units and improving capacity utilisation
  - Interest cost rationalisation
  - Fixed and variable cost reduction targets
  - Working capital rationalisation
- Rationalisation of distribution system
  - Dealer network rationalisation, to ensure that the dealers are committed
  - Increasing reach and penetration through demonstrations and customer awareness

The impact

One year later, for the financial year 2003-04, Rallis India reported a net profit of Rs. 255.5 million on net sales of Rs. 4,892 million (see Fig 7 and 8). Its debt-equity ratio was down to 2.3 from 8.6 the previous year. The budget and fiscal measures announced by the government of India for the year 2004-05 were favourable for agri businesses like Rallis. The budget had provisions for increasing agricultural credit over the next three years (2004-07), steps to improve produce markets and to promote agri business.

The next year was even better. The Rallis board recommended a dividend of 10 per cent, after a gap of three years, when the company posted a net profit of Rs. 341.6 million on revenue of Rs. 5,937.8 million in 2004-05. That year Rallis India earned 20 per cent of its revenue from exports and announced a growth of 41 per cent percent in pesticide sales in Q3 2005 Rallis furthered improved its product portfolio through reverse engineering and alliances. Its borrowings decreased by 44.4 per cent to Rs. 1, 385.3 million. Forex earnings grew by 21.79 per cent and debt-equity ratio fell below the unity mark to 1.0. The company had spent Rs.120 million for migration from SAP 4.7 R3 to mySAP ERP solution. It appointed Ernst&Young as consultants for its IT purchases. The main benefits that the company derived from technology were application integration, seamless connectivity and more online access.

By now, Rallis was firmly on track, both growth wise and performance wise. In 2005-06, it showed a net profit of Rs. 425.3 million (26.95 per cent higher than previous year) on net sales of Rs. 5,916.3 million.

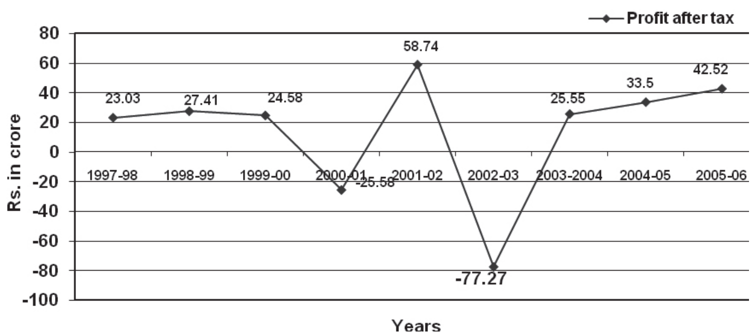


Fig. 7: Trend in Rallis India's profit after tax figures

Maintaining the momentum

When the turnaround was initiated in 2003, Rallis had prepared a business plan projecting revenues of Rs. 5,500 million, gross contribution of Rs. 1,960 million and expenses of Rs. 1,620 million in 2004-05. By the middle of the financial year, it became obvious that the company was performing much better than expected. This was clear validation that Rallis was back on track and its people and systems were operating well. Accordingly, the targets in the business plan were stretched: the revenue target was revised to Rs. 5,930 million and expenses were slashed by another Rs. 60 million. The profit before tax (PBT) had been projected at Rs. 340 million and was revised to Rs. 390 million. The stretched targets were achieved.

Rallis continued to do well beyond 2005 by sustaining the momentum of its growth. The next year, in 2005-06 revenues reached a figure of Rs. 6,300 million. Cost reduction was one of the major pillars of the turnaround strategy. So loans were reduced by Rs. 230 million and interest cost by Rs. 60.8 million in 2005-2006. The trend in borrowings has declined considerably too less than Rs. 150 million per annum. Both profit before tax and profit after tax continue to rise (see Fig 7and 8).

Sustainable growth: The momentum generated by the steps taken in 2003 is continuing; more important, through systems, process and monitoring, this momentum has been made sustainable.

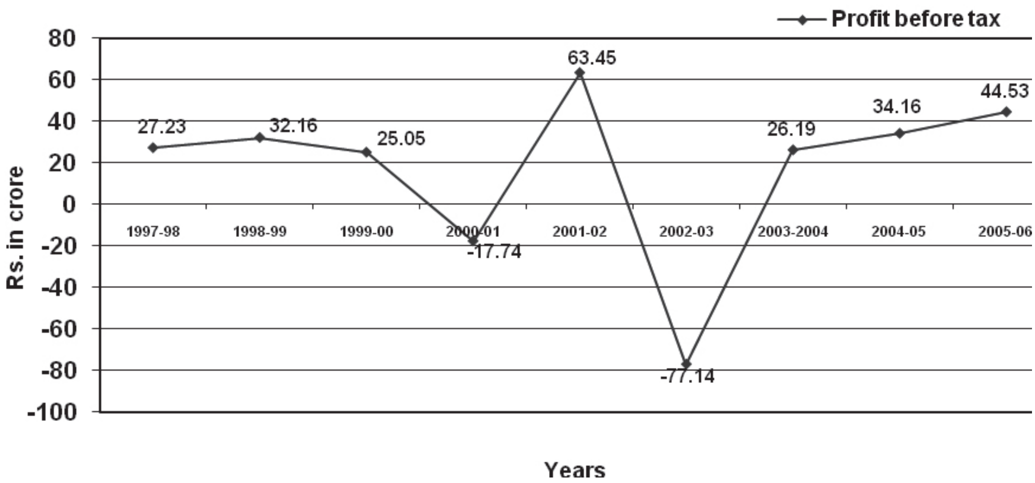


Fig. 8: Trend in Rallis India's profit before tax figures

Rallis has achieved these results through seamless functioning of finance, marketing, sales, manufacturing and administration departments. The commitment shown by the management towards the turnaround strategy was just as strong a factor as were the other initiatives - cost reduction, sale of non-performing assets, performance management, alliances, marketing strategy, enhancement of customer interactions, rationalisation of distribution system, pruning of the dealer network. All these helped make Rallis a healthy organisation.

After announcing the 2005-2006 results, V. S. Sohoni made a presentation showing the improvement in several financial parameters, such as earnings per share, which reached a peak in 2006. The Rallis turnaround has resulted in increasing stakeholder satisfaction on several parameters: Profit before tax, debt: equity ratio, earnings per share, and minimum borrowing.

New growth areas

From a long-term perspective, Rallis has improved its product portfolio and introduction of new products, beyond the alliances it has signed. A series of new product launched have been planned for the coming years. Of the 200 molecules generated by R&D, four lead molecules have been confirmed. This is an example of innovation in the company; the four new molecules have been registered, out of which two molecules have already gone into commercial applications.

To get into new value added activities, Rallis plans to strengthen its operations in cottonseeds, as it expects a sizeable turnover to come from the seeds business. The BT Cotton market size is expected to almost double, and acreage under legally grown BT Cotton crops to rise almost six fold by 2009-2010. Rallis has already introduced BT Cotton seeds to its portfolio. The company has increased exports by 21 per cent, to reach a figure of Rs. 1,530 million in 2005-2006.

The next phase that Rallis went through was consolidation, where gains were consolidated and changes were rigorously implemented.

Rallis has turned around on every front, i.e., with a 360-degree perspective. Every part of its business has attempted to improve, which in turn has increased its growth momentum.