JAIN IRRIGATION

Jain Irrigation Systems Ltd.

MD		BKC	
CS		DPY	
RO		DIV	
TRA		AC	
AGM		SHI	
YE			

10th Annual Report 1996-97

Corporate Philosophy

Mission

Leave this world better than you found it.

Vision

We shall establish leadership in whatever we do at home & abroad.

Credo

Serving & striving through strain & stress; doing your noblest, that's success.

Goal

To produce quality goods at optimum cost and market the same at reasonable price so as to achieve total customer satisfaction, fair return for all other stakeholders and continued growth for the Corporation through sustained innovations.

Guiding Principle

In order to achieve the goal, we shall work hard, manage men, material and money in an integrated, efficient and economic manner keeping in view that social responsibility and environmental concerns are equally relevant.

Work Culture

Work is life.

Dear Fellow Shareowners,

I have a confession to make. Twenty years' of the "We can do it" spirit and the post-liberalization euphoria, encouraged us to make some ill planned forays into Finance, IT and Granite. We took risks in our quest for "Sunrise" industries, with a bright future and excellent profit profiles. However, Management of these businesses, we soon discovered, was infinitely more complex. What's more, we could not provide them leadership. Pressure from them drew attention and resources away from our existing strong main business lines at a crucial time.

As a result, over the last 18 months, the Company traveled through the darkest lane in its history. In taking on impossible missions, we guaranteed for ourselves a hard fall. From the sky to the side walk. Harsh exigencies, constricting pressures and unpleasant events never experienced before, crowded our days.

Regardless of all this, growth remained our continuing concern and therefore an introspection and soul searching is necessary. It may make us all feel uneasy. However, if we don't learn from our mistakes of the past, we shall condemn the future to its repetition.

Having said this, I remain the most ardent believer of the fact that the Company's fundamentals are rock solid. Consider these real strengths not otherwise reflected in the financial statements.

Customer Base:

We have not lost even one significant customer, though non-supply did result in a marginal loss of market opportunity. Our domestic sales could have grown at a much healthier rate but for the cash crunch, leading to disruption in supplies. We did not push export, because margins came under constant pressure by erratic raw material price fluctuations and the imposition of new duties in EEC.

Brand equity earned by "EX-CEL" sheets in the European and U.S. markets remains our proud achievement.

Our reputation is high even with the overseas "Just-in-Time Customers". Our market response cycle has remained very short and efficient. Our claim ratio declined, range of products widened and deliveries quickened.

People and Culture:

Our work culture has not changed. Despite no increase in compensation packages for the past two and half years, there has not been any slackening in work speed or quality. People continue to work with full commitment and enthusiasm. The organization has remained lean, thin and flexible. Its customer-friendly character has remained intact and its obsession for "Excellence" continues unabated. The company's emphasis on enhancing the capabilities of its people has remained high. Learning from the supervisors & managers, the co-workers / associates have become more productive. The average age of the associate is 29 years, and 95% are below 45. All of them are literate. They are young and vibrant.

Technology, Business Process and Facilities:

Worldwide there has not been any significant change in technology and process in regard to the products being manufactured by your Company. Our facilities and structures are world-class, and well maintained. In-house R & D, machine building and tool making facilities have enabled the Company to keep itself updated and innovative. With the passage of time, the Company has perfected the production process, and has reached a degree of refinement matched only by industry leaders of the West.

Strategy for the times ahead : 1998-2000:

We will focus on our core activities of 'Agriculture' and 'Plastic'. These synergistic businesses gave us excellent returns during 1987-93. We are confident of doing even better by the end of the century.

To achieve this, we have started restructuring and consolidation in true earnest. This has involved the following:

- **Merger of 4 group companies to enable vertical integration:**

  The Merger will allow the company not only to become a "One-Stop-Shop" for agricultural inputs, but also become the largest processors of fruits and vegetables.

  Further, this Merger will enhance production efficiencies and better utilization of marketing networks in India and abroad.

- **Financial restructuring:**

  This is being done to reduce the costs of existing debts and extend the maturities of the various loans. It also involves better working capital management and procurement of adequate working capital limits from the banking system so as to dispense with costly short-term market borrowings to fund our growth.

- **Phased divestment of 3 non-core businesses:**

  The Company will get out of all its non-core businesses. This would further improve cash flow of the company and allow management to focus only on core activities. Divestment is being phased because of the difficult capital market conditions and overall liquidity crunch in the economy.

- **Disinvestment of surplus assets:**

  The company will sell its surplus real estate and equipment at a profit to raise resources, which can then be productively channeled to reduce debt and consequently improve the debt equity ratio.

- **Profit center approach:**

  This is being done by a reallocation of responsibilities and inducting cohesiveness and co-ordination in management decision making, at all levels. This will be supported by the introduction of Enterprise Resource Programming [ERP] solutions which will result in improved efficiency in operations, savings in cost and activity based profitability. We will inculcate in all our associates, a work culture will be based on a flexible compensation approach linked to the individual / group productivity & the Company profitability.

These steps are expected to help the company effect a turnaround in the next 12-15 months, although in the current year [ending June'98] Company will continue to be in the red. Albeit, with losses that are substantially less than last year.

Looking ahead, your company will continue to grow at a minimum pace of 30% per year in its core businesses. Once the drip irrigation industry gets recognition as 'Infrastructure Industry', growth would be exponential.

Conclusion:

In conclusion, we are grateful to all those, who stood by us and supported the Company during these difficult times. They are the ones, who made the difference. My thanks go to those, who were neutral. Also those who behaved rough, or played tough, because they brought home the much needed realism and taught us endurance.

The Company has passed through trying times, but today we are equipped to nurture our core business with a sharper focus. All of your company's businesses are in tune with national priorities. Agriculture is not only a profession with a future, but is increasingly gaining ground, particularly because our economy is becoming global and India's real competitive edge lies in the huge potential of the agro related and food processing industries.

However, this enormous potential cannot be exploited unless the scarce water resources are efficiently managed and agricultural productivity is substantially increased. Your Company is uniquely positioned to offer complete solutions to these problems of our country.

With this background and the excellent groundwork done over the last decade in exports, your company will emerge as a strong 'built-to-last' global leader in its chosen field in coming years.

With warm regards,

B.H. Jain,
Chairman.

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Corporate Directory

Board of Directors

B.H. Jain	-	**Chairman**
Ashok B. Jain	-	**Vice Chairman**
Anil B. Jain	-	**Managing Director**
Ajit B. Jain	-	**Joint Managing Director** (w.e.f. 01.03.98)
A.S. Ajgaonkar	-	**Whole Time Director**
J.J. Kulkarni	-	**Whole Time Director**
R.B. Jain	-	**Whole Time Director** (w.e.f. 01.03.98)
R. Swaminathan	-	**Whole Time Director**

Non Executive Directors

C.P. Mehta	-	**Director**
P. Ramakrishnan	-	**Director** (w.e.f. 01.03.98)
P.R. Mahajan	-	**Director** (Nominee of I.C.I.C.I)
Dr. P.V. Sane	-	**Director** (w.e.f. 01.03.98)

Principal Bankers

American Express Bank, Mumbai
Bank of Baroda, Jalgaon.
Credit Agricole Indosuez, Mumbai
Centurian Bank, Mumbai
Deutsche Bank, Mumbai
ICICI Banking Corporation Ltd., Mumbai
Indusind Bank Ltd., Mumbai
State Bank of India, Mumbai
State Bank of Indore, Sendhwa
The British Bank of Middle East, Mumbai
The Oman International Bank Ltd., Mumbai
The United Western Bank Ltd, Jalgaon
Union Bank of India, Mumbai

Company Secretary

A.V. Ghodgaonkar

Auditors

Pukharaj C. Jain & Co., (Chartered Accountants), Jalgaon

Solicitors

Mulla & Mulla & Craigie & Blunt & Caroe, Mumbai

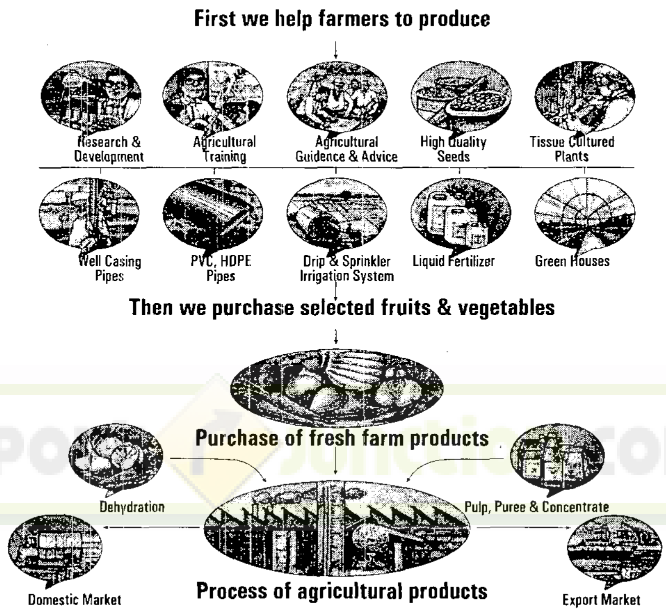
Global Alliances

Amcor Ltd., Israel - Solar Systems
Azrom Metal Industries, Israel - Green Houses
Chapin Watermatics Inc., USA - Sub-soil Tubing
Plexite Ltd. (Glynwed Group), UK - Wood-alike Plastics
Vanguard Plastics Inc., USA - Polybutylene Plumbing Systems

The Directors present the 10th Annual Report of the Company and the Audited Accounts for the 15 month period ending June 30, 1997.

Amalgamation:

As per the Directors' announcement on 31st March 1997, the Company has obtained approval for Scheme of Amalgamation of Jain Plastics & Chemicals Ltd., Jain Kemira Fertilizers Ltd. & Jain Rahan Biotech Ltd. from Honourable High Court of Judicature at Bombay. The scheme of amalgamation has been acknowledged by knowledgeble circles as synergic and of strategic value. The Company now becomes 'One-Stop-Shop' for manufacture and marketing of hitech agro inputs, and, purchase, processing and value addition of the produce purchased from farmers.



Financial Appropriations:

The Company (post merger) has achieved a turnover of Rs. 3943 million including Exports of Rs. 1341 million. In absence of profit before depreciation, the Board of Directors have deferred provision of depreciation, and Miscellaneous Expenses, for the period, till such time the Company earns profits before depreciation in future years. The loss before provision for Depreciation and Miscellaneous Expenditure is Rs. 282,070,736, whereas after adjustments pertaining to prior years and the interim dividend paid out of balance brought forward in Profit and Loss Account, the net debit balance in the Profit and Loss Account carried to Balance Sheet is Rs. 225,291,324.

In view of losses suffered by the Company, the Directors have decided not to recommend any dividend on Equity Shares of the Company. However, the Directors recommend to Shareholders about appropriation of Preference Dividend, paid as Interim Preference Dividend, from balance available in Profit & Loss account before March, 1997. The Preference Dividend for 3 months ending 30.06.97, has not been provided, in absence of profits during the year. Same shall be paid as and when profits are available for appropriation.

The Operations for the 15 month period are not comparable with previous year in view of extension of accounting year and amalgamation of various Companies as above into the Company w.e.f. 01.04.96.

Past Year:

As per the last report of Board of Directors, the Company decided to focus on its core businesses of Plastics and Agriculture and has taken steps to improve resource utilisation. During the period under review the working capital position of the Company remained under stress and, consequently even the plants in core business have been run at lower than optimum capacity.

Operations of Company's Divisions (Pre-Merger) :

a) The MIS Division has achieved the turnover of Rs. 1032.6 million, including exports of Rs. 122.8 million for the 15 month against Rs. 1034.3 million for last year, including exports of Rs. 84.6 million, an annualised decrease of 20%.

b) The Green House Division has achieved the turnover of Rs. 18.8 million for the 15 month period, against Rs. 16.1 Million for last year, an annualised decrease of 6.5%.

c) The Sheet Division has achieved the turnover of Rs. 944.9 million, including exports of Rs. 860.2 million, for the 15 month period against Rs. 680.4 million, including Rs. 617 million exports, for last year, an annualised increase of 11%.

d) The Solar Division has achieved the turnover of Rs. 15.7 million, for the 15 month period as against Rs. 47.7 million for earlier year, an annualised decrease of 74 %.

Operations of Amalgamating Companies (Post Merger):

e) Jain Kemira Fertilizers Ltd. carried on business of Water Soluble Solid and Liquid Fertilizers. During the period under review, the division achieved a turnover of Rs. 22.1 million.

f) Jain Rahan Biotech Ltd. carried on business of Tissue Culture. During the period under review, the division achieved a turnover of Rs. 3.8 million.

g) Jain Plastics & Chemicals Ltd.

i) carried on business of PVC Pipe. During the period under review, the division achieved a turnover of Rs.1553.2 million, including Rs.60.9 million of Exports.

ii) carried on business of Dehydration of vegetables. During the period under review, the division achieved a turnover of Rs.58.9 million, all in exports.

iii) carried on business of Papain, an enzyme. During the period under review, the division achieved a turnover of Rs. 24.8 million, all in exports.

h) All other divisions together achieved turnover of Rs. 354.8 million, including exports of Rs. 212.40 million.

The losses during the year are attributed to following factors:

1. Deterioration in the operating performance of Company's main business lines is, due to lower capacity utilisation, higher interest burden, and non availability of working capital funds in time.
2. Blockade of funds in receivables for longer than normal period, specially in case of exports, and, resultant dependence on market borrowings for bridging the working capital gap, resulted in higher interest burden of, Rs. 753.4 Million, as against Rs.208.7 Million last year, for the combined operations of the merged entity.
3. The diversification project of Company (Onion Dehydration), underwent reconfiguration and consequent time overrun, and, hence could not contribute to turnover and profitability..
4. Investment in support services and other activities, have not yielded any benefits and income flows as expected. In fact they have been a drag on the Company's resources:

(Rs. in Million)

Sr.No.	Company	Net Amount Invested	Net Amount Loans	Total
1.	Atlaz Technolozy Pvt. Ltd.	25.98	77.88	103.86
2.	Jain Securities International Ltd.	48.84	121.65	170.49
3.	Gowtham Granites Ltd.	68.00	131.61	199.61

In view of the current situation being faced by the Company, the management has embarked upon restructuring. Savings in cost, specially financing cost, will result in the short and medium term optimal resource utilisation. Divestment in unrelated areas will take place. Operations will become efficient, to achieve turnaround in the near future.

As a part of restructuring exercise

a) Investment in Telecom business of Atlaz Technology Pvt. Ltd. has been hived off.

b) In Jain Securities International Ltd., due to changed market scenario most of the bought out deals have become illiquid. However, during the period no fresh funds were invested, in the said Company, and efforts are on to recover the lockedup amounts.

c) PVC Pipe manufacturing facility has been relocated to main plastics complex. Papain manufacturing facility has been relocated in the food complex. This move has resulted in cost savings on account of octroi paid on material requirements for PVC Pipe division, and, it has also saved on administrative costs & resulted in operational convenience.

d) The Company has received sanction for revised working capital limits on reduced margin requirement recently from the consortium of Banks. The lead Bank has disbursed the new limits also. It will, therefore, hasten and optimise the resources utilisation process and hence increase revenue.

e) The restructuring exercise also includes Company's request for restructuring of long term debt by the Financial Institutions. This will further ease liquidity. The term lending institutions have shown positive indication to consider the request of the Company, for longer moratorium, conversion into foreign currency and reduction in interest cost. They hope to do so in near future.

Current Year Outlook:

Agriculture & Agro Products:

This Division consists of product groups such as Drip and Sprinkler Irrigation, Pressure & Casing Pipes, Green Houses, Tissue Culture, Liquid & Powder WS Fertilizers. The division undertakes R&D, acts as demo centre, and, also incidently produces raw material used for captive consumption in the processing plants, for e.g. onions, vegetables, mangos, guava, custard apple. The Division also has a separate section for project sales, both at home and abroad.

The external environment by way of Government support, better appreciation of the benefits of these products on the part of the farming community, very certainly promise a quantum leap in demand for the agro products during the current year. Moreover, the Planning Commission has also agreed 'In Principle' for according drip irrigation the status of infrastructure industry. In such an event, the industry presently at about Rs. 4 billion, can easily witness exponential growth touching Rs. 20 billion per year. The basic raw materials, including PVC and LLDPE, used for production of irrigation system have shown downtrend internationally, and in India. This has improved the profitability of the Company.

Agro Processing:

This Division has two important activities. (1) Dehydration of Papain from Papaya fruit (2) Dehydration of Onions & vegetables, all for exports. Papain, as mentioned earlier, continues to do well and is expected to perform better during the current year. The commercial production of dehydrated onions has stabilised, and the finished product has been very well received in the overseas markets, including UK, Germany, South East Asia, Australia and USA. In fact, order book is already filled up for the calendar year's production, and that too at higher realisation. We have also taken steps to improve capacity utilisation, and achieve higher total solids, so as to minimise processing cost and improve profitability. The raw material (onion) supplies during the year had been adversely affected by climatic changes, and consequently, the Company was required to pay almost double the price for Onion purchase. This, however, has been made good by higher realisation, and devaluation of rupee.

Plastics Processing:

The South East Asian currency fluctuations have not had any significant adverse effect on the Company's operations, because there were not many manufacturers / producers of comparable quality goods in the South East Asian market. This Division has PC and PVC sheets, as well as, moulded components section. The capacity utilisation of the PC Division will improve in view of recent supply agreements reached with important customers, including GE. The PVC Sheet Division has also shown higher value addition, because the raw materials required could be indigenously procured, and the import cost, and exchange fluctuation did not impact the operating and raw material costs. Similarly, moulded component exports (knobs) with GE Appliances, is showing larger volumes and that too at better realisation.

Solar Division:

The main stumbling block in promotion of products of this Division has been lack of availability of institutional loans. The Company has recently succeeded in negotiating an understanding with United Western Bank, for direct loans to the consumers against the Corporate Performance Guarantee. This has shown encouraging results, and we expect to double the sales in this Division.

Future Outlook for Drip Irrigation, Water & Land Management:

The draft 9th five year plan has given highest importance to agricultural production, and has estimated the same to grow by 100%. It has also committed that the subsidies for three agro inputs, including drip will be enhanced during the plan period. The manifestos of two major policital parties have also committed to qualitative improvement for agricultural sectors. They have committed to vastly increased public and private investment in agriculture, and agro based industries. Indeed, one of them have stated that 60% of the planned fund in budget, will be earmarked for agricultural and rural development.

They have also unveiled a comprehensive policy, for bringing waste and barren land into productive agriculture, or agro forestry. Our Company is the only Company, which has done basic and pioneering work and gained insight into these areas. These parties have in particular committed to offer attractive incentives for popularisation of drip and sprinkler irrigation. Lot of other water and