KOTHARI GENERAL FOODS

Can it be turned around?

For Jagatjit Industries Ltd, tying up with the world's second's largest foods company may be a dream come true, but turning KGF around will be an uphill task

Jaiswal: grabbed the opportunity

The year long search has ended. Kraft General Foods, the multinational US foods giant, seems to have finally got a new partner for its Indian venture, Kothari General Foods Corporation Ltd (KGF). About a month ago, it reached an informal partnership agreement with the Kapurthala (Punjab) based food and liquor manufacturer, Jagatjit Industries Ltd (JIL). Kraft General Foods (which was formed about eight months ago by the merger of Kraft and General Foods) holds 33 per cent of the Rs.14.20-crore equity of KGF. JIL will buy over 26 per cent held by the Indian promoters of KGF, the Madras-based Kothari Industries Ltd (DC group).

Why did the Kotharis lose interest in KGF within a few months of its commissioning, especially as they had spent seven long years to see their dream project come through? What went wrong?

Wrong positioning

Well, almost everything. The cost of the project, for one, went up to Rs.45 crore from the original estimate of Rs.34.35 crore as a result of delays. Then, both the powdered beverages — Ju-C and Tang, which were expected to be money spinners — flopped miserably in the market. Wrong positioning and high prices caused their downfall. The third product, instant coffee, too turned out to be not as remunerative as expected.

KGF's loss during 1988-89 (year ended March) was Rs.7.81 crore. And the total accumulated loss at the end of the year stood at Rs.15.35 crore — a crore more than the company's equity capital.

The question then is, why would a successful company like JIL, with net sales of Rs.121.49 crore (year ended March 1989) and net profit of Rs.8.31 crore, be interested in a loss-making company? The answer: opportunity came knocking at its door. If JIL were to venture into a large scale foods project with a multinational tie-up, on its own steam, it would have had to wait for two to three years just to get the relevant licences. And here was a ready-made package in collaboration with the world's second largest food processing company. JIL grabbed the chance.

JIL and Kraft are confident of turning KGF around. "Kraft General Foods has the best available technology for powdered beverages and frozen foods, which meshes with our own range which includes Milkfood ice-cream," says S. Bhakat, vice-president of JIL. Although Bhakat is tight-lipped about the new products planned, the overseas merger of Kraft with General Foods will obviously enable KGF to make freeze dried food products like cheese and other milk products of Kraft along with powdered beverages and soluble coffee of General Foods. "We will carefully select the products which will be successful in Indian market," says Bhakat.

These hopes, however, seem to be a bit premature. The deal itself is far from through. The Kotharis were kept totally in the dark about the selection of JIL by Kraft General Foods till the last moment. Now, they are believed to be asking for Rs.14 per equity share of Rs.10 while JIL is not even ready to pay par value. (The Kotharis are believed to have negotiated with the Goenkas for Rs.12 six months ago.)

Many in Madras think the Kotharis are being difficult because they feel peeved at not being taken into confidence. "It is not just the question of rupees and paisa," says a senior Kothari offical. "We have put our blood and sweat into this project. How can you write us off so easily?"

The financial institutions, who have a combined outstanding of Rs.33 crore in KGF, however, can still bring in JIL even if the Kotharis don't budge. The entire 26 per cent stake of the latter is pledged with ICICI, including their voting rights. In addition, the financial institutions together hold another 8 per cent of KGF.

Maltova and Viva: small market shares

"Doubly cautious"

So, if required, the institutions can extend support to JIL to take control. But, as a senior ICICI official at Bombay says, "We want a complete plan, including new products to be introduced. We have to be doubly cautious now." But finalising the new product basket is bound to take time, in view of the company's past failures.

Speculation is also rife about Kraft's seriousness about the Indian venture, especially when they have already written off the assets in KGF. (Despite repeated queries, the president of Kraft General Foods' Asia-Pacific division in Hong Kong did not respond.) Bhakat, however, is confident. "We have already worked out a game plan but the deal has to be clinched quickly to start the process," he says.

Many also question the selection of JIL for the new partner. But then, Kraft General Foods did not have much of a choice. Earlier, they had had talks with the RPG (Ceat Tyres) and K.K. Modi groups (Godfrey Philips, makers of Four Square cigarettes). They were not selected primarily because of their lack of experience in the processed foods business. Kraft General Foods did not want to repeat the mistake they made in tying up with the Kotharis, who were not in the foods business. Other major Indian food processors already had foreign collaborations or were not interested. That, perhaps, left only JIL to be picked up.

JIL was set up in 1947 by L.P. Jaiswal, chairman and managing director of the company, to produce Indian Made Foreign Liquor (IMFL). In 1952, it went public with a small equity capital of Rs.28 lakh. It got into the foods business in 1966, in a small way, when it started marketing Ovaltine, a malted milk food manufactured by Sandoz. Ovaltine was discontinued with the expiry of the agreement and, in 1970, JIL launched Viva, its own malted milk food, and Maltova in 1976.

Today, however, processed foods constitute only 15 per cent of JIL's turnover. And in the country's malted milk food market, according to ORG's retail market survey, the share of Viva and Maltova together is just 15 per cent. (Leading the pack is HMM's Horlicks, followed by Hindustan Cocoa's Bournvita).

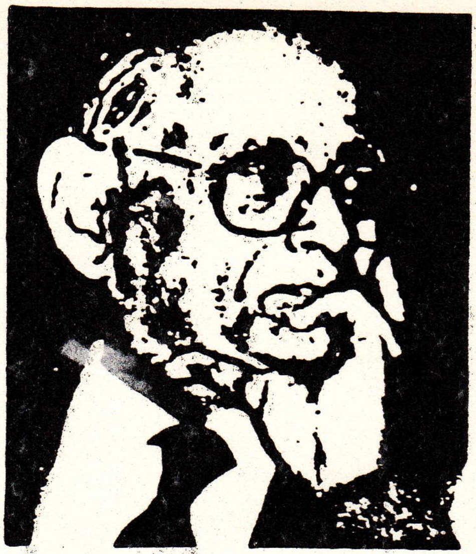
Gained popularity

JIL's main profit centre is its liquor business (Aristocrat and Binnie range), accounting for three-fourth of its sales. Its subsidiary, Milkfood Ltd (sales in 1987 of Rs.58 crore) produces milk powder and infant milk food (half its sales) and ghee (45 per cent). Of late, its ice cream, Milkfood 100 % Ice Cream, has gained popularity in the north.

JIL's main asset, perhaps, is that it is flush with money, which the cash starved KGF badly needs. In 1988-89, JIL made a net profit of Rs.8.31 crore on a turnover of Rs.121.49 crore while in 1987-88 it had a cash surplus of Rs.20 crore.

Despite cash inflow, it will be a long haul before KGF can be turned around. On a turnover of Rs.49 crore in 1988-89 (year ended March 1989) it made a loss of Rs.7.81 crore. Interest and depreciation came to Rs.6 crore during the year. It has two main plants for powdered beverage and instant coffee. While the beverage plant has been lying idle for many months now, after the withdrawal of Tang and Ju-C, the coffee plant operated at full capacity in 1988-89.

But the Rs.30-crore, 3,000 tonne coffee plant is a white elephant. A comparable plant of Indodan Industries (makers of Gold Cafe) cost just Rs.7 crore. The cost of the KGF project was higher because of the "absolutely state-of-the-art" machinery installed. The huge expenditure would have been fine if there had been comparable returns. But as things stand, KGF exported its entire coffee production last year to Russia at just 40 per cent of the domestic price of Rs.200 a kg (excluding excise duties). With an export obligation of 60 per cent for the next five years, and with Russia being the only buyer, and with one more 100 per cent export oriented plant (Asian Coffee of Hyderabad) soon coming on stream, KGF is unlikely to make money on coffee exports. Also, can it sell its coffee in the domestic market where the price is much higher?



D.C. Kothari: peeved at not being taken into confidence

There is, also, a huge excess capacity in the industry. The installed capacity at 15,000 tonnes (excluding KGF and Asian Coffee) is double the annual demand of 7,000 tonnes. Naturally, the market is fiercely competitive and not growing fast enough. With the launch of Gold Cafe by Indodan alone, for example, market leader FSL found its sales dropping by 6 per cent in 1988.

In addition, KGF will also have to bear the burden of its higher project cost. Worse, the competition in the future is likely to be even fiercer. FSL has already set up a new 3,000-tonne plant in Mysore and Indodan is doubling its capacity to 6,000 tonne.

Presumably, KGF's powdered beverage plant (cost: Rs.15 crore) and the new products to be introduced will make enough money to offset the losses of the coffee plant. But here too, as past experience has shown, the market is highly competitive and high prices are suicidal.

Clearly, KGF is in a jam and in the next two years or so the Jaiswals and Kraft will be busy putting the company back on the rails. If they succeed it will probably be the most colourful feather in the low profile Jaiswals' cap and will also save the face of the Rs.15,000-crore US food giant. ■

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