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Kothari General Foods sale on cards



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When it was launched six years ago, it seemed to have all the ingredients for success: a tie-up with an international foods giant, the promise of an exciting range of wares, and a market that was just readying to take off.

But the recipe didn't work. Kothari General Foods (KGF) is awash in red ink. The once-promising processed foods company has been up on the auction block for nearly a year. Three nominees of collaborator Kraft General Foods have quit the KGF board, and the US partner is conducting an investigation into what went wrong.

Last month, the Madras-based Kotharis, who own 26 per cent of KGF'S Rs 14.2-crore equity, at last seemed to have found a buyer for their stake - Jagatjit Industries Ltd, the Rs 200-crore Punjab-based processed foods and liquor company. General Foods - which owns 33.3 per cent of the shares - had sounded Jagatjit Industries over a month ago.

Jagatjit Industries is likely to buy the Kotharis' stake in

Late last fortnight, Jagatjit and the Kotharis were yet to begin talks, but some hard bargaining can be expected. A Jagatjit source said the company would offer less than Re

1 for a Rs 10 KGF share. The Kotharis' stand was not clear. They said they'd prefer to comment later.

interested in KGF. It is a loss-making company. People are spreading rumours about us."

Right now, KGF is not exactly a gold-mine. Its unaudited, provisional balance sheet for the year ended March 31,1989 shows an accumulated net loss of Rs 4.48 crore, up from Rs 2.52 crore the previous year. A senior Jagatjit executive argued that if KGF'S creative - though perfectly legal - accounting is discounted, its "real losses" would be close to Rs 20 crore, more than its net worth. If this is true, KGF will have to be referred to the Government's Board for Industrial and Financial Reconstruction (BIFR) next July, when KGF turns seven (a company cannot be referred to the BIFR before it is seven years old).

The Jagatjit functionary may be overstating the case, but KGF is in a tight spot - and its share price reflects this. Around Rs 17 during most of 1987, it dropped below face value this year but rose again after newspapers reported that the Kotharis had found a buyer.

What went wrong? The Rs 34.35-crore project cost, for starters. The imported plant's price was perhaps too high, pushing up the overall bill. A similar project that used an Indian plant cost about Rs 10 crore. Time overruns may have raised the cost further. So KGF'S annual interest burden is stiff (around Rs 4 crore), as are its depreciation charges (about Rs 3.5 crore).

The Kotharis aren't talking, but they may have soon realised the project was unviable. According to a General Foods source, barely three months after the company's plant in Mysore, Karnataka, began commercial production in April 1988, the Kotharis told General Foods they wanted to sell out.

Then, two of KGF'S products - Ju-C and Tang - which were expected to rake in profits - bombed on the market. Ju-C, a soft drink concentrate, failed to take off. It was swamped under by Rasna and other brands. And Tang, another American favourite, was priced too high for Indian pockets - Rs 110 a bottle, almost double that of rival products. Worse, the Government raised hurdles to importing the concentrate. So, Tang had to be withdrawn

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1987-88 to Rs 22.70 lakh a year later, its income from manufacturing and conversion (mainly instant coffee) went up from Rs 12.41 lakh to Rs4.66 crore. But though the sales pay for production expenses and the interest costs of the coffee plant, they are not enough to provide for depreciation.

So why is Jagatjit interested in KGF at all? Company sources say KGF can still be turned around if it diversifies its product-mix and tightens its operations and if the financial institutions agree to reschedule their loans to KGF.

That sounds like a brand new recipe. And if it is to work, it needs more than just a sprinkling of luck.

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