

# Turnaround of a Cable Company

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*This article addresses the problem of corporate sickness—what are its causes, and what strategies could be adopted to turn around a company suffering this problem. Cited is the case of an Indian cable company for which a turnaround strategy was devised and the design and implementation of the plan is charted.*

## Introduction

Corporate sickness is of considerable significance today. In the U.K., U.S.A. and other developed countries, there are a large number of Companies suffering from this. In India there are currently about 600 large units and around a hundred thousand small units which are sick, with millions of rupees provided by the financial institutions/banks, etc. locked up in these sick units. Roughly around Rs350m is locked up in sick Central Government Organizations (Public Sector Undertakings).

In India, the problem of sickness in large business units is likely to grow worse. The number of new businesses is estimated to be over 60,000 thanks to the various incentives available. For example, today an entrepreneur can start a new business with an investment of Rs1m and with almost Rs0.9m coming in as loans from financial institutions. Most of these entrepreneurs have very little techno-commercial-managerial capacity to manage the business. Their problem is further complicated by the intricate Government rules/regulations.

What exactly are the causes of corporate sickness and what strategies could be adopted to turn around the Company? The answer can be illustrated by citing the case of a Cable Company for which we had suggested a turnaround strategy.

## Background

The KAY-SI Cable Company Ltd. (hereinafter referred to as the 'Company') was incorporated in

1957 as a Public Limited Company under the Companies Act 1956 and was registered as an MRTP Company (Monopolies Restrictive and Trade Practices Act; which in effect means that manufacture of products has to be restricted to only selected 'core' sector areas). In 1957, it was the first Company to introduce XLPE Cables in the country.

The financial trends of the Company as well as the break-up of the turnover/contribution to profits is given in Figures 1 and 1a.

An analysis of the Electricals and Electronics market in India over the last 20 years, of which the cable market formed a part, indicated a cyclical trend as shown in Figures 2 and 2a.

The analysis of the PVC market indicated

- ☆ Shift in technology. During the 1970s, manufacture of PVC Cables was considered to be a hi-tech. product. (In the 1950s/1960s, when the Company introduced PVC Cables it was considered as a 'super hi-tech.' technology.) Currently the manufacture of PVC Cables is a low-technology product and large scale proliferation of this technology has taken place during the last 2/3 years.
- ☆ A sudden increase in the installed capacity of almost all the large manufacturers (almost double) during the last 2/3 years.
- ☆ A quantum jump in the number of small scalers from 150 to 400 in the last 3 years.
- ☆ Reducing/shrinking market, especially because the electricity boards (major buyers) do not have funds for the purchase of new equipment.
- ☆ Shift of electricity board purchases from large /big units to small scale units (for the electricity board, price is generally the major consideration).
- ☆ Tie-up of foreign aid funds resulting in purchase of equipment from the foreign countries (tied loans).