Turnaround and Transformation: A Case of an Indian Pharmaceutical Company

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[Emerging as a modest pharmaceutical company in India, Kasilcare in the early years came out with a wide range of innovative products, unique in its own way and set a trend for innovative health care solutions. The decade 1990's marked the beginning of a new economic framework and a shift in government policies. To thrive in this evolving environment, it became imperative for Kasilcare to restructure and streamline its business operations. Thus, Kasilcare was restructured in 1995. Moving beyond pharmaceuticals, the concept of total healthcare now forms the commercial heart of the Kasilcare group's operations and activities.

The Kasilcare group was having spectrum of products, which include segments like Surgical, Orthopedic, Wound Care, Disinfections, Critical Care, Diagnostic and Patient care systems. The product range truly fulfills the entire needs of the medical profession. In the drive to explore the hitherto un-attempted areas of Specialty Chemicals the company entered the field of manufacturing Sulfolane. The management of Kasilcare has successfully demonstrated its ability to work in close co-operation with international organizations.

Dr. Raghubir, the Managing Director of the company was deeply saddened by the outcome of the Kasilcare Health Division and chooses the right person for the post of President of Kasilcare Health Division. The same day he was stricken by the idea that Mr. Raman is the person with versatile skill to handle the division and bring it up from the debacle.

In the year 1998-1999, the Strategic Business Units (SBUs) of the division were restructured depending on the product mix under the leadership of Mr. Raman. This helped in improving the focus of each SBUs and at the same time helps increasing the operational efficiency. The recruitment strategy changed all together by hiring/promoting young mind. Mr. Raman believes in immense potential of this young people by giving opportunities and empowering them to take decisions in certain matter. President Raman was a visionary who could see far beyond the day-to-day activities of business. He could articulate his plans and actions into missions, which got percolated down the bottom line of employees. This helped in creating the feeling of ownership and belongingness among the employees of the organization. The commitment of the employees improved and a lot of cooperation was seen among team members of the organization. It is clear that leaders wisdom is very much essential and fundamental requirement of turnaround process, providing strong clues and feedback to the configuration of the successful business, encapsulating the mind sets and identifying and satisfying changing customer's needs.

Even inside observers were apprehensive of the company's future due to changes sweeping the market in which company was operating. Mr. Raman was trying to improve upon the present situation through massive plans. Mr. Raman stated that the company must try to emerge as a leader by focusing on the research and development and collaborating with the foreign-based company to place Kasilcare as a global leader. The competition in the home turf shouldn't be a major deterrent. Continuous effort should be made in the direction of improving their distribution channel. The company has to generate direct resources to make the products more popular and acceptable so that it stays as a great player in that field.]

The dawn of 50's ushered in an era of awakening in India. Having broken free from the bondage of dormant history, a need arose for the country to be self-sufficient in all spheres. Healthcare at

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this time was the sole domain of a few pharmaceutical giants. Coupled to this was the enormous task fighting the myth and malady by cutting across the barriers of communication so as to reach out to people and to ensure the most effective cure in the shortest possible time. Under such circumstances, with tenacity of purpose and unfailing zeal to achieve perfection in quality, Kasilcare was set up in 1962 by late Mr. Ballav Patel.

Emerging as a modest pharmaceutical company, Kasilcare in the early years came out with a wide range of innovative products, unique in its own way and set a trend for innovative health care solutions. By the early 1990s, Kasilcare was ranked the third largest pharmaceutical company in India. The decade also marked the beginning of a new economic framework and a shift in government policies. To thrive in this evolving environment, it became imperative for Kasilcare to restructure and streamline its business operations. Thus in 1995, the concept of total healthcare formed the commercial heart of the group's operations and activities.

A group company of Rs. 400 crore, Kasilcare set up in the year 1988 as joint stock public ltd company. It was primarily into allied hospital supplies business. The Kasilcare Group is having spectrums of products, which include segments like Surgical, Orthopedic, Wound care; Disinfections, Critical Care, Diagnostic and Patient care systems. The product range truly fulfills the entire needs of the medical profession. Initially it was mainly doing a business of products like syringes, needles with syringes, and latex Gloves. Then later on, it expanded the business and at present it is one of the largest producers of natural latex disposable gloves, plaster of paris bandages, adhesive surgical tapes and dietary supplements in the form of multivitamin/ mineral supplement in soft gelatin format. The company's product range includes non-woven dressings, respiratory filters, anesthetic accessories and specialized patient care systems and pressure sensitive pneumatic pulsating beds.

The company's products and services include the supply of Diagnostic reagents and instruments from Human GmbH of Germany and Panbio of Australia. The latest addition to the range is the indigenously developed Pregnancy Test Kits, which in a short time has occupied the status of "numero uno" brand in its segment, christened Acutest. In the drive to explore the hitherto un-attempted areas of Specialty Chemicals the company entered the field of manufacturing Sulfolane a "green" solvent used in refinery and pharmaceutical bulk drugs synthesis. The management of Kasilcare has successfully demonstrated its ability to work in close co-operation with international organizations such as Tyco (Mallinckrodt)- USA, Human GmbH- Germany, Panbio-Australia and Makromed-South Africa.

Armed with this wide range of products and the experience of operating in all parts of the world the company is eager and waiting to serve the need of the customers from medical profession. Over the years this objective has been fulfilled and the company now has major divisions as follows:

Diacon Division: Kasilcare recognized the relevance of diagnosis and laid clear emphasis on bringing cutting edge technology in this field. With therapeutic as the forte, Kasilcare emerged as the leading supplier of diagnostic solutions under the name of Diacon. Today, Kasil has long-standing alliances with international diagnostic majors & also markets a string of indigenously developed products in many key segments. The continuous thrust on R & D will ensure more such wonders in the years to come.

Kemicon Division: Kasilcare ventured into specialty chemicals in the late 90's and today is a leading supplier of Sulfolane for all refineries in India. Sulfolane is used for the extraction of aromatics from naptha. The technical applications cell of the Kasilcare has developed new applications for this product. Sulfolane is widely used in the synthesis of Cerfolosporins. Newer applications are constantly developed to expand the market. The company all set to export to advanced countries.

Hospicon: Kasilcare manufactures Orthopedic Products, Surgical and Examination Gloves, Wound care Products, Disinfectants and sterilizing solutions. There are different plants located at Kozi and Haldi. The climate of the place is best suited for the products manufactured here as the products are hygroscopic in nature and the average humidity is less than 50%. One unit was started in 1989 with 100% E.O.U. and these products are exported on regular basis to the countries like Kenya, R. D. Congo, Zambia, Nigeria, Ugandanm Myanmar, Yemen, Ghana, Mauritius & Sri Lanka.

Sofgel Division: Kasilcare was commissioned a modern, sophisticated manufacturing facility for Soft Gelatin Capsules at its Kozi complex. All operations in this plant from encapsulation to packaging are carried out under stringent international standards. All systems are validated to meet International FDA standards, and the present capacity of one million capsules per day can be doubled with marginal investments. Kasilcare set up the Soft Gelatin Capsule manufacturing plant mainly to cater to the dietary supplement market of Vitamins, Minerals and Hematimics. This ISO 9002 approved plant has been awarded the Quality award by Indian Drug Manufactures Association and also carries WHO GMP certification by the Government of India. Initially the plant was catering to the in-house requirement of Kasilcare Pharmaceuticals Ltd. Currently the Kasilcare products have been approved by other Pharmaceutical organizations and the products are exported to Far East and African market.

Dr. Raghubir had been keeping closed look at this unit since 1987. But one fine morning he was deeply saddened by the outcome of Kasilcare Health Division. He scrutinized the past financial reports very closely and suddenly he found that debacle and the impact it would carry on the customer. His intimacy with the employees of the organization helped him to choose the right person for the post of President of Kasilcare Health Division. The same day he was stricken by the idea that Mr. Raman is the person with versatile skill to handle the unit and bring it up from the debacle.

Raman – The Leader

In the year 1998 Mr. Raman was handed over this ailing business of Kasilcare Health Division of Kasilcare group companies after being elevated to the post of president. Being a pharmacist having done his graduation and post graduation in Pharmacy, he had been serving the company as a production manager in the manufacturing division for more than 7 years.

At the time of his joining as President of Kasilcare Health Division, it was already a loss making unit of Kasilcare Group Companies. The division of Kasilcare was facing a major challenge of survival amidst stiff competition. A tough challenge was set in front of him by the board of directors without making any investment on this particular division. Initially he was given time to adjust himself to the operations of various cross-functional areas of the division and only look after the production division. Later on he analyzed the operations of each divisions of Kasilcare very carefully and tried to streamline the activities.

The Financial Performance

In the year 1998 the company faced a severe financial crunch and was declared as sick unit. This was on account of lower take off of sulfolane for the past three years before 1998 and intense competition thrown by the major players at both national and international level in all the product line. The year 1996-97 showed a total grip in operations which is evident from reduction in net loss from Rs.310 lakhs to Rs. 99 lakhs. In respect to Sulfolane project, Company did well by having a grip in domestic market. Research was continuing to discover the alternate use of this product to increase the demand in the market. They have started exporting this product in the same year, as there was a demand for this consignment from foreign party. The soft Gelatin Company was awarded an ISO 9000 certificate and bagged prestigious awards i.e. IDMA Quality Excellence Award, 1997 and WHO GMP Certificate for the production facilities of the soft Gelatin. The financial year 1998-99 showed in the increase in turnover by 18% as compared to previous year. The company was expected to do better than the outcome, but on account of lower off take of Sulfolane the company couldn't meet desired results. Growth strategies for the other products were largely depended upon the market base and large market share with better customer services.

It was in the brink of disastrous when Mr. Raman came to the rescue of the company. Being offered a very prestigious chair of President, things didn’t change so dramatically but took three years to show turnaround after the revamping the whole operation.

Making a Turnaround

As compared to the previous year, the turnover increased by 34% during 1999-2000, which was on account of enlarged market base and larger market share with better customer services. The accountability of increase in profit was due to alternative applications of Sulfolane successfully being marketed domestically. There was increase in consignments for this product from refineries. In the same year they established the Strategic Business units (SBUs) depending on the product nature. For instance, separate hospital division was created for hospital disposables products, so that each division is looking efficiently at its operation through strictures and norms formulated. The hospital division was coming to break even point the same year and was expected to do well in the next year. In the same way the Soft Gelatin division was doing successfully due to consignments coming from the reputed company. The critical care division was newly developed for the same financial year, which used to market the premium products of M/s Mallinckdort, U.S.A.

During the year 2000-2001, the company has achieved a total turnover of Rs 2,279.37 lacs, representing approximately 16% increase as compared to the previous year. The company incurred a loss of Rs. 147.54 lacs. The increase in loss was due to lower off take of sulfolane, a technology based product, which has a better contribution as far as the profitability of the company is concerned, which had contributed a lot in the last year. The company scraped some of the assets of Disposable Needles and Syringe plant at Kozi from the active use in the same year. There was a complete turnaround and a magnificent improvement in profitability of the company in the next year. In the year 2002-2003 the company achieved a total turnover of Rs. 2385.38 lacs, representing approximately 4.65 % increase as compared to the previous year. The company in the same year posted a profit of Rs. 6.14 lacs. The Diacon Business Unit of the company has been able to enjoy a good position in the Diagnostic market in India in the same year. Under the leadership of Raman the organization was doing well in Diagnostic products in collaboration with Human Gmbh, Germany and Critical Care products of Mallinckordt, USA.

For the last three years the company has been making overseas ventures. Since the year 2001, it has emerged as a second major player in gloves manufacturing and currently manufacturing examination and surgical gloves at its Kozi factory, which has a capacity for manufacturing 14.4 million pairs per annum. In 2001, it’s President who took initiative to negotiate with Wembley

Rubber, which is a world leader in manufacturing Gloves. At present, Wembley has three manufacturing facilities in the Far East, one in the US and another one in Europe. Thus, group's glove manufacturing facility had been catering exclusively to the export market since it has been a 100 per cent export oriented unit.

This joint venture has successfully helped in meeting the estimate requirements of the local as well as global market for all kinds of gloves ranging from the conventional surgical and examination gloves to industrial gloves, toxic material handling gloves, chemical gloves and gardening and cooking gloves.

It not only focused on overseas venture, but also incorporated latest technology for increase in the production of Sulfolane in which they were having monopoly in the domestic market. In 2002, with the help of Indian Institute of Petroleum, Dehradun, they developed a new technology and with its commercialization, Kasilcare became the third largest manufacturer of sulfolane in the world. Sulfolane is used in bulk drugs manufacturing in the pharma industry. The higher offtake of this product is considered to have a major contribution to the profits of the organization. It is a basically technology oriented product. According to Mr. Raman, spokesperson of Kasilcare Pharma, the company has embarked on a massive expansion plan to meet international demand for the product.

Exhibit 1: Showing the financial results from 1997 onward: (in lakhs)

Particulars	Yr. Ended 31/03/2002	Yr. Ended 31/03/2001	Yr. Ended 31/03/2000	Yr. Ended 31/03/1999	Yr. Ended 31/0/3/1997
Sales and Other Income	238538	227937	1958	1825.82	1229.61
Operating Profit	168.90	167.25	193.96	154.82	99.04
Deduct: Interest Depreciation Misc. Expenses	 79.97 67.65 9.89	 109.14 79.53 9.89	 102.35 77.37 13.19	 108.74 93.34 15.54	 117.82 72.38 13.07
Operating profit	11.39	31.30	1.05	62.80	
Prior period adjustment	3.23	8.31	9.73	15.71	
Loss Due to the extra ordinary item	2.02	107.93			
Net Profit/Loss for the year	6.14	147.54	8.68	47.90	104.23

Strategic Interventions

The cost cutting strategy was adopted in all fronts of functional areas by reducing unnecessary cash flows. Restructuring was brought about by lying off people, thereby changing the organization structure and making all SBUs to be lean and flat structure. This type of organization design proved to be effective after revamping of whole set up than the earlier one.

The recruitment strategy changed all together by hiring young mind. Raman believes in immense potential of this young people by giving opportunities and empowering them to take decisions in certain matter. It will help in giving better mileage to the firm by contributing to its growth. Thus there was a total attitudinal change. According to him this young mind is very receptive to new ideas and technique and would like to transfer their innovative ideas to convert into products and services. Thus, they can offer a competitive advantage to firm by working out innovative products. He believes in giving chance to all young minds since they are more open minded. In this case he never went to hire from external market but he encouraged internal promotion. He even entertained job-hopping. He doesn't believe in conventional way of dealing with Human resources. The loyalty and commitment shown by the people without contributing anything to the organization don't carry any meaning as per him.

The Communication programme is used as a strategy to change the behavior of the employees and keep them motivated to improve the productivity. He believes in open communication. They have a system of Daily mirror, an online system, which renders detail information about the daily progress and action taken by the company. The information is sent through e-mails everyday across the company. Every month they flash newsletter giving whereabouts of company's business in terms of financial statements, and other news about awards, recognitions and ceremonies. Plan is considered to be an important element for turnaround process from symbolic and as well as practical point of view. President Raman used to conduct meeting every week to set plans and strategy so that the company lays out short-term improvement and long term strategic vision. Symbolically this plan carries a signal to all stakeholders the disciplined approach of leadership, demonstrating preparedness, knowledge and skill in terms of business and knowledge, the degree and direction of the change and management of the process. In practical terms conducting this meeting and discussing plans and strategy provides a clear vision, prioritizes and directions to actions, changes attitudes and set out broad outlines of strategy in uncharted water. The meeting is represented by divisional heads presenting their progress sometimes in front of Board of Directors, their problems, their strategies to improve upon the present operations, and putting forth the innovative suggestions are put forth to improve upon the business and arrive at the solution through unanimous decision.
Repeated endeavors under the leadership of Raman was made in the direction of practicing quality assurance program by convincing ISO certified authorities about the product's qualities and getting successful certification for some divisions which supported in getting acceptance of products from the consumers.

Hospicon division, which was facing very critical problems like too much market sensitive products and was facing difficulty to stabilize the quality of products, which was resolved through some of the marketing strategies suggested by Mr. Raman. The division started maintaining quality from every front and got the consistency by focusing on input cost and eventually landed up in controlling the production cost. They even made endeavors in the direction of developing consigning agents in each and every state. Further they established the centralized CD system for all the states and authorized stocks were allowed to deal with the consigning agents.
Same division under his leadership has started focusing on getting profits through few products in their product line. Mailers are sending to all doctors to accept or reject the concept and quality of the product so that they bring product awareness, which was done, through Product Management Team. They even bring awareness among the customers about the gift coupons or any scheme they have floated to promote the product.
The progress of this unit is measured strategically in absolute terms not in relative terms. That is they are not keeping target orientation of sales but keeping profit orientation. For instance 60 lakhs turnover was done through 55 distributors out of which 27 distributors were found to be making a turnover of only Rs 27000. So the agreement between lots of distributors has been broken.
The problem of massive cash flow has been resolved through change in business partners. This idea of gaining advantage in business is reflected if we see the Diacon division holding sixth

position among major players. It even doesn't expose to various segments of products thereby involving no risk of suffering from heavy loss unlike the competitors.
They are promoting their product among C-class by working in villages and bringing out loyalty from them towards their product. So the promotional strategy to make the product popular among C-class people is the strategy adopted to compete with their competitors.

These units of Kasilcare are competing with big players and multinational company by following a policy of manufacturing lower quantity of products and selling them all in good prices so that it brings back profit and no inventory left behind.

Raman – A Visionary

President Raman is a visionary who could see far beyond the day-to-day activities of business. He could articulate his plans and actions into missions and visions, which got percolated down the bottom line of employees. This has helped in creating the feeling of ownership and belongingness among the employees of the organization. The commitment of the employees has improved and lot of cooperation can be seen among team members of the organization.

Vision:
"Our vision is to be a leading pharmaceutical company in India and to become a significant global player by the year 2005 A.D. Our aim, to be a global player, will lead to the establishment of operations in the key markets of the world, including the developed countries. We shall seek joint ventures with partners who are major players in their country or region. We aspire to enrich our people - our driving force to become highly competent professionals and technology based.
By the turn of this decade, we shall be amongst the most admired companies in India."

Mission: We strive for a happier, healthier tomorrow. We shall provide total customer satisfaction and achieve leadership in chosen markets, products and services across the globe, through excellence in technology, based on world-class research and development.

Our human resources will continue to be the most valuable asset in this pursuit of leadership and the prime driving force for our growth.

We are responsible to the society. We shall be good corporate citizens and will be driven by high ethical standards in our practices."

He was a risk takers and he could introduce the products which are not conforming the standard laid down by the ISI governing body but could satisfy the customer's requirement. The doctors were the predominant customers. Within a year of his appointment he brought down the cost by adopting the strategy of "let's stop bleeding" which means regulating the operation of the company in such a way that it doesn't result in giving loss to the company. The progress of any company was measured in absolute terms, not in relative terms. That is they were not keeping target orientation of sales but keeping profit orientation. He used to meet different customers to understand their requirements and to know the whereabouts of the company's products in terms of quality. So he touched the bottom line of operation by moving into the market on his own and meeting various doctors who were the main customers.

Different committees have been set up under his leadership where Head of each division are representing the team to solve inter-departmental progress in their respective products, inter departmental conflict and formulate the strategies for the growth of the company. For instance there is a Gross Contribution Committee, which takes into consideration that each division is contributing to profit of the company. They identify their own key performance measures to evaluate their performance. Similarly each division was having a separate committee who will take care of the responsibility of its entire operation and its success and failure of the products.

KASILCARE – The Future

It is clear that leaders wisdom is very much essential and fundamental requirement of turnaround process, providing strong clues and feedback to the configuration of the successful business, encapsulating the mind sets and identifying and satisfying changing customer's needs.

Even the company observers are apprehensive of the company's future due to changes sweeping the market in which company was operating. The President - Raman is trying to improve upon the present situation through massive plans. According to him the company needs to invest considerable amount on expansion plans to increase the capacity of production so that it can reach to wider range of mass and can tap mass market. They can develop their core competency by giving attention to those divisions, which are contributing to revenue generation and profits. Company need to set up their own R&D so that the quality of the product gets tested and producing, designing testing and marketing are happening under the same roof. They should try to emerge as a leader in those products where they have a monopoly, focusing on the research and development and collaborating with the foreign-based company to place themselves as a global leader. The competition in the home turf shouldn't be a major deterrent. Continuous effort should be made in the direction of improving their distribution channel. Company can make a strategy of competing with the other players in respect of those products where they have been placed either in first, second and third and by maintaining the standard quality for heath care products. They can direct the resources to make the products more popular and acceptable so that they stay as a leader in that field and endeavor should be made to get ISO certification for all the divisions. They should make a continuous effort to bring the Hospicon and Kemicon divisions above the break-even points through various strategic interventions.

Annexure 1

KASILCARE LIMITED

Audited Financial Results for the year ended 31st March, 2003

(Rs. in Lacs)

Particulars	Accounting year ended 31.03.2003	Accounting year ended 31.03.2002
1. Net Sales / Income from Operations	2,950.32	2,377.73
2. Other Income	27.72	7.65
3. Total Expenditure	2,706.04	2,216.48
a). (Increase) / Decrease in Stock-in-Trade	(352.90)	(88.62)
b). Consumption of Raw Materials	1,898.40	1,396.17
c). Staff Cost	390.28	348.65
d). Other Expenditure	770.26	560.28
4. Interest & Financial Charges	90.44	79.97
5. Gross Profit / (Loss) after Interest but before Depreciation & Misc. Expenses	181.56	88.93
6. Depreciation & Misc. Expenses written off	78.80	77.54

7. Provision for Taxation	0.00	0.00
8. Profit / (Loss) for the year	102.76	11.39
9. Prior period adjustments (Net)	0.40	(3.23)
10. Profit / (Loss) due to Extra-Ordinary items	(26.45)	(2.02)
11. Net Profit / (Loss)	76.71	6.14
12. Paid-up Equity Share Capital	1094.45	1,094.45
13. Reserves excluding Revaluation Reserves 14. Basic and Diluted EPS for the year (Rs.) 15. Aggregate number of Non-Promoter shareholding Number of shares Percentage of shareholding	25.00 0.70 22,36,900 20.44 %	25.00 0.06 22,36,900 20.44 %

Notes: 1. The above results were taken on record by the Board of Directors of the company at its meeting held on Saturday, the 7th June, 2003.

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