

Lay-Off to Hats-Off: The Strategic Turnaround of Public Enterprise

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Abstract

It was a strenuous tight-rope walk in a short period for the Kerala Minerals and Metals Ltd. (KMML), the largest public sector undertaking, to turn around from the verge of lay-off, by improving productivity and market competitiveness, with a unique approach and outlook. An alarming stock of about 10,000 MT of pigment worth US\$ 25 million was piled up and the loss-making company was operating on overdraft to the tune of US\$ 8 million, towards the end of 2015-2016. The company was on the brink of lay-off, threatening the lifeline of 280 officers and around 3,000 workmen employed by KMML permanently and on an outsourced basis, following the heavy loss suffered in the fiscal year 2014-2015. The future was looking bleak. But KMML could circumvent this crisis by adopting a series of interventions with the support and cooperation of employees and the concerted efforts taken up by the management in close collaboration with the employees. There was no change in the technology, there was no change in the process, and challenges and opportunities remained the same; but there was definitely a change in the approach and attitude of the employees, which really turned the company around. The sea-change was wrought in a short span of time with the dedication, determination, and will power of both the company management and the employees; everyone was determined that they were not going to allow the company to falter in its course of growth and development in the interest of the nation and also the company's workforce.

Keywords: Turnaround, strategy, production, productivity, management, public enterprise.

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Introduction

Kerala Minerals and Metals Ltd (KMML), the first and only integrated Titanium Dioxide Plant in the world having all the operations, from mining to mineral separation, synthetic rutile, and pigment-production plants, started the production of Titanium Dioxide Pigment using chloride technology in 1984. Apart from producing rutile grade Titanium Dioxide Pigment for various types of industries, KMML also produces other products, such as Ilmenite, Rutile, Zircon, Sillimanite, Synthetic rutile, among others. The annual business transaction crosses US\$ 150 million, which includes average sales to the tune of US\$ 100 million and purchases of more than US\$ 50 million. An average amount of US\$ 25 million is being paid to the government annually in terms of various taxes. The different grades churned out by KMML under the brand name KEMOX is being sold in both domestic and international markets. The research work done by the R&D department has also helped KMML to add more colours to its portfolio.

KMML is now in the aerospace industry and defence applications, with the commissioning of the Titanium Sponge Plant. The US\$ 25 million Titanium Sponge Plant (TSP) is a joint venture of KMML, Vikram Sarabhai Space Centre (VSSC), and the Defence Metallurgical Research Laboratory (DMRL). With the commissioning of TSP, India becomes the 7th country in the world to have the technology for producing titanium sponge, which is the raw material for titanium metal. Titanium sponge, a metal of the 21st century, is known for its high strength and low weight, making it an ideal material for aircraft manufacturing, including fighter aircraft. Today, with over 3000 employees and a range of products, KMML has become part and parcel of local and international life.

The bleak scenario at the end of 2015-2016 began changing for the better for the loss-making company, following the launching of a series of interventions, taking the employees into confidence. The concerted efforts made by the management with the cooperation of the trade unions and the employees saved the day for one of the most proud public sector units by registering an operational profit of US\$ 5 million in 2015-2016. The overdraft was brought down from US\$ 8 million to NIL and the company opened a Fixed Deposit of US\$ 4 million on May 31st, 2016. Furthermore, the stock position was brought down from 10,000 MT to 5,600 MT as of May 31st, 2016 and to 3900 MT within few more weeks. This paper gives an insight into the strategic interventions taken at various levels, which finally turned KMML's position around.

The Problem

An alarming stock of titanium pigment worth US\$ 25 million was piled up and the company was operating on overdraft to the tune of US\$ 8 million, towards the end of 2015-2016. The payments to the suppliers were inordinately delayed and they were pressing for releasing the payments. Some of the eligible benefits due to the employees were also remaining denied because the poor financial condition of the company. KMML, the loss-making company, was staring at the possibility of a closure.

Methodology

A series of strategic interventions were brought in by the management by prioritizing the targets with a clear mission to make the company a profitable venture at the earliest. The spheres of production and marketing were given the top priority as they were key to the survival of the company. The huge stock of products offered the company a big opportunity to earn revenue. The management took the employees into confidence and they were assured that they would be compensated at the appropriate time. The management and the workforce then stood shoulder-to-shoulder and scripted a new golden chapter in the history of KMML.

The various methodologies adopted to streamline the core operations to bring out the spectacular change are given below:

Streamlining Production

In order to achieve the target of maximum production, special focus was put on Beneficiated Ilmenite and Tickle (Titanium Tetra Chloride). A special task force was formed to monitor the consumption of major raw materials, namely, LPG, Furnace Oil, Calcined Petroleum Coke, Hydrochloric Acid and Hydrated Lime, which amounted to more than US\$ 25 million per annum and constituted about 30% of the cost of production. A task force was also formed to monitor steam consumption, digester operation, and product quality. This was done as part of the strategy to reduce costs and avoid wasteful expenditure. Owing to this successful monitoring, the company could save around US\$ 3 million.

Ilmenite Beneficiation Plant - IBP

A thorough review of the production revealed that in order for KMML to survive, the company had to improve the production and quality of production, and reduce the cost of production. The company management focused on these factors.

There were two roasters with a capacity of 20 MT reduced Ilmenite /Hr, but the online storage bin could only store 500 MT. Since the bin capacity was not sufficient to store the reduced Ilmenite produced, it was a regular practice to stop one roaster in between to match the production with the storage. At the same time, when seven digesters were in operation, there was a shortage of reduced Ilmenite, which resulted in a shortage of leached Ilmenite and very often one of the two Calcinors were idle. This was a cyclic issue, ultimately affecting the production of Beneficiated Ilmenite; the company ended up purchasing Beneficiated Ilmenite from outside. The purchase amount was about US\$ 4 million per year and when compared to the low in-house production cost, it was giving an additional burden to the company to the tune of US\$ 2 million. This was one of the main factors for the high cost of production and when the company had adequate capacity to produce the required quantity of Beneficiated Ilmenite, there was no question of purchasing the same from outside. The management was determined and openly declared in a meeting of the Co-ordination Council (re-named the “*trade union-management meeting*”, as the Co-ordination Council wanted to convey a message that employees are also a part of management, which helped) that no purchase of Beneficiated Ilmenite would be made from outside and that the company would produce the entire requirement in the plant itself and that the employees should co-operate and support and take up additional responsibility to accomplish this task. Since the intention of the management was clear, the employees accepted the suggestion and extended their full support.

With persistent involvement in the plant, staff became very enthusiastic and took extra care in increasing the production; the company finally registered a Beneficiated Ilmenite production of 39,075 MT during 2015-2016, which was an all-time high figure, and 4,567 MT of Beneficiated Ilmenite production was achieved in May 2016, which was the highest monthly production ever. By eliminating the purchase of Beneficiated Ilmenite from outside, the company could save about US\$ 1.5 million per year.

Unit 200

The scrubber column was getting choked frequently and the entire plant had to be stopped for two days for dismantling, cleaning, and re-fixing. Engineers struggled a lot to find out the reason for choking, but their

efforts were in vain; even scientists from other research organisations that they consulted could not suggest any effective measures to solve this issue. The company, however, could not afford this situation of stopping the scrubber column for two days since it was affecting the monthly production target and the cost of production. After a detailed interaction with the company management, engineers and operators installed the spare scrubber column in parallel, and commissioned the same within two weeks. With this on-line arrangement in place, the time needed to take care of the scrubber column was reduced from two days to eight hours, which in turn significantly improved the productivity.

Unit 400

Unit 400 is the final stage of TiO₂ production, where the pigment slurry is dried, powdered, and bagged in three shifts. On several occasions, the company noticed that the workers were idle as no bagging was done due to shortage of slurry, and this unit was in operation continuously irrespective of the availability of slurry. On further analyzing the data, it was observed that the annual production capacity of the Titanium Pigment Unit (TP) was 40,000 MT and Unit 400 could easily produce 150 MT /day. From this, it was clear that Unit 400 did not need to be operated every day since the maximum production that could be achieved in the TP unit was of only 40, 000 MT /year. So, it was noticed that Unit 400 could be given a break for one day every three days and still could achieve this production. A discussion was initiated on this subject in the next Planning and Review meeting and the management was asked to work out the possibility of re-scheduling the production in Unit 400 based on the availability of the slurry; the management agreed to do it on an experimental basis. One day break per week amounted to 52 days per annum, which meant a lot in terms of cost savings on electricity, steam, manpower, overtime wages, maintenance, and so on. This translated into about US\$ 0.52 million per year savings.

In the monthly coordination council meeting with the trade unions, the management discussed the actions taken to improve the performance of the company to get their feedback. They were asked to question the management and correct their actions if they felt that the company was going in the wrong direction. Interestingly, however, they never questioned any action, but rather extended their unconditional support, appreciating that everything was done in a transparent manner and in the best interest of both the company and the employees.

Research & Development

The Research & Development (R&D) Department of the company played a key role in keeping and maintaining the quality of the products of the company in tune with the international standards, as the competition in the international market was very tough. Realizing the pivotal role being played by the R&D wing, the department was restructured and a technical consultant was engaged to improve the pigment quality.

TiO₂ pigment is made from the Slurry. The slurry from overflow or choking due to machinery breakdown, power failure, and so on, was pumped and stored in a pond and the same was later re-mixed in the main stream at the rate of 5 to 10 %, which affected the quality of the main grades. With the support of the R&D team, the company could develop and introduce a Special Grade RC-820 exclusively using the slurry from this pond. The mixing of old slurry with the new slurry was stopped completely, which in turn helped in improving the quality and consistency of the main grades and thus the customer complaints regarding the quality of main grades dropped drastically. The NABL accreditation awarded by the Ministry of Science and Technology in New Delhi was another boost up for the R&D team.

Augmentation of Marketing Network

The company management launched several measures to strengthen the marketing network as it was highly essential for the speedy sale of the products. Meantime, several measures were also initiated to plug the loopholes in the marketing sphere. Some of the major initiatives taken to strengthen the marketing field were:

- (a) the Pricing Committee re-constituted with more members, including a Manager (Internal Audit);
- (b) the Special price scheme was introduced for direct/small customers;
- (c) the Customer Care Cell was opened for assisting the customers and clearing their queries;
- (d) one officer was appointed exclusively for attracting new customers to expand the market network;
- (e) special attention was given to the marketing of Tickle & Plastic grade pigment;
- (f) four new stockists were appointed for sales in India, raising the total number of stockists in India to nineteen.

The company also appointed two promoters for sales of the pigment overseas. The major paint companies could be brought back to KMML after a gap of five to nine years for sourcing their requirements, which widened the market.

Import Duty

The Import Duty of Titanium Pigment at 10% was being retained in the Union Budget in 2016-2017, also. The KMML made several representations to the Union Government in this regard and followed up vigorously to retain the duty at 10% whereas for similar products, the import duty was reduced to 7.5% by the central government in the Union Budget. This helped the company to have an edge on competitors, especially the Chinese ones.

Safeguard Duty

To arrest the heavy influx of Chinese pigments, the company started, for the first time, working towards getting a safeguard duty imposed on the Titanium Pigment imports from the Director-General of Safeguards. After couple of initial meetings with the Director General, the company could convince him about the urgency of imposing a safeguard duty and the application for the same was finally accepted. This created an impression in the domestic market that the Government was planning to impose a safeguard duty and it indirectly helped in improving the price of pigments. After few months of vigorous interventions in production, quality, and marketing, the company reached a stage wherein the KMML pigments were sold above the cost of production with a profit margin. The selling price of pigment gradually increased from US\$ 0.2 million to US\$ 0.3 million per MT. As the situation improved further over the following few months, the management could not convince the Director General on the need of imposing a safeguard duty on imported pigments and the application for the same became infructuous. KMML could stand on its own feet and the company became more confident on its strength.

Sales Tax Refund

The sales tax refund from the Government had been pending for many years as the assessment was not completed. KMML could complete the sales tax assessment for two years (2009-2010 and 2010-2011) and with constant follow up, the company received an initial refund of US\$ 1.2 million from the Department of Commercial Taxes. The company could further get a refund of another US\$ 1 million in the following few months, which eased the financial crisis to a certain extent.

Refund of Loan Given to PSUs

KMML had given about US\$ 15 million to various state PSUs over the years but nobody repaid the amount, due to various reasons. Nonetheless, with constant follow up, KMML could recover the loan provided to one PSU, to start with.

Waiving of Interest

Few years back, an amount of US\$ 5 million was given to Kerala State Textile Corporation as a loan at 7% interest rate, as per the Government's direction. But Kerala State Textile Corporation have neither repaid the principal amount nor the interest. With proper follow-up at various levels, the Government finally issued orders to convert the loan of US\$ 5 million given to the Kerala State Textile Corporation to an interest-free loan with retrospective effect, by which KMML saved around US\$ 0.5 million towards the payment of income tax towards the accrued interest of the above loan, as the interest had to be accounted as income.

Pre-Audit

A committee was formed to pre-audit all bills above US\$ 0.2 million for releasing the payments, so as to ensure their correctness and genuineness. The committee did its job meticulously and did not give any room for complaints.

Power Savings

The KMML entered into agreement with the Power Trading Corporation (PTC) and registered with the Indian Energy Exchange through PTC in November 2015, for power bidding on a daily basis. On account of this, KMML saved around US\$ 0.2 million a day and the total saving as of 31st of May 2016 was around US\$ 0.5 million, which further touched US\$ 0.8 million within the following couple of months.

Loyalty Scheme

The direct customers, irrespective of size and order volume, were benefited by the introduction of the new monthly Loyalty Scheme. The extension of the existing stockist-centric quarterly Loyalty Scheme was also made applicable to them. These measures encouraged the direct customers and they started lifting more quantity.

Employees

The management must realize that the growth and development of the company depends on its workforce. The morale of the workforce should be kept very high in order to increase the performance of the company. Welfare measures for the employees are highly essential to keep their morale high. Despite the financial crunch, the company took several measures for giving them the due benefits, among which the following:

- (a) the two pending DA installment arrears were cleared;
- (b) an ad-hoc salary revision was given to both workers and officers starting from February 2016;
- (c) about 70 workers and 40 officers were given promotions/higher grade, without much financial burden to the company;

- (d) the pending Leave encashment payment was released and also re-started the vehicle loan which was discontinued years before due to the financial crisis;
- (e) “We Care Scheme” was launched to provide one-time financial support to the employees, on the occasion of the marriage of their daughters.

Overall, these measures helped in boosting up the morale and confidence of the employees.

Apex Council

The management had to deal with a lot of issues related to the affairs of the company. In order to deal with these in an effective manner, an apex council was set up with the top-level officers. The formation of the council went a long way in successfully handling several issues which had cropped up in the administration and management of the affairs of the company, which inculcated a feeling among the senior officers that they were also part of the decision-making process. This helped in the speedy and smooth implementation of the decisions in the interest of the company.

Co-ordination Council

A good relationship between the management of a company and its employees is absolutely essential for the growth and development of the company, as well as the welfare of the employees. In order to foster and nurture cordial and smooth relationships between the management and the employees, a Co-ordination Council was constituted with representatives of the management and the Trade Unions. The meetings of the Council were being conducted once a month. All issues of importance were discussed at these meetings and solutions wherever necessary were being ironed out at these meetings. No thorns were allowed to come in between the management and the employees. The improved Management-Employee relationship contributed substantially to the KMML’s turnaround.

One of the suggestions which came up at one meeting was that there should be a scheme for giving a gift to the employees at the time of marriage of their daughters. This was accepted. As previously mentioned, the “We Care Scheme” was launched as a joint contributory scheme of the employees and the management. The acceptance of a welfare measure suggested at the meeting boosted the morale of the employees. The winning over the confidence of the employees was a milestone in putting the company on the track of recovery and development.

Intellectual Talk Series

Prominent people who excelled in various professions were invited for interaction with senior officers and trade union leaders. This was a unique opportunity for the employees to re-orient their outlook in line with the requirements of the outside world and the series of meetings helped in gradually changing the approach and attitude of the employees.

Vision 2025

In view of all the actions and strategies implemented by the management in close coordination with the employees, the future turned bright for KMML once again. Now, it can scale higher peaks in the sphere of growth and development. The sky is the limit. Currently, the company is in the process of preparing a Vision Statement for 2025 with the participation of the employees. It is specifically intended to define an ambitious

target regarding where KMML want to be by the year 2025 in terms of purpose of business, in terms of its core values, and in terms of how the company should stand out in its business domain.

Result

The strategic interventions made at various levels, as explained above, resulted in the improvement of the overall performance of the company, which are highlighted below:

Production

The Mineral Separation Unit, the Titanium Pigment Unit, and the Titanium Sponge Unit ramped up to peak performance and the key production figures touched all-time records, which included 65,630 MT of Ilmenite, 39,075 MT of Beneficiated Ilmenite, and 5,346 MT of Zircon. As for Titanium pigment, the production figure of 33,625 MT was the highest in five years.

Sales

The company could make major gains in marketing during 2015-2016. The sales of 5,088 MT of Titanium Tetra Chloride and 5,557 MT of Zircon are again all-time-high figures.

Finance

The operating profit of the company during the year 2015-2016 was US\$ 5 million, with a gross turnover of US\$ 90 million, against an operating loss of US\$ 4 million incurred in 2014-2015. The Titanium Pigment Unit registered a profit of US\$ 0.4 million against a loss of US\$ 4 million from the previous year and the Mineral Separation Unit has increased its profit to US\$ 4 million compared to the previous year. Overall, the operational profit increased by US\$ 7 million. The financial performance of KMML gained more significance, especially because 2015-2016 was the worst year for the global TiO₂ industry in the last 10 years and many companies across the globe recorded negative earnings, as reported by TZMI, the international agency for cost comparison of Titanium Products.

Conclusion

The strategic and timely approach adopted in augmenting the production as well as productivity, thereby reducing the cost of production and increasing the market competitiveness, played a pivotal role in making the company earn profit. The major credit for the successful turnaround in a short span of time ultimately goes to the unstinted support and co-operation of the employees within the organisation. The management realised that the employees are the pillars of the organisation and that they should be taken into confidence before bringing in any strategic interventions.

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