

# Hot stuff in a cold climate



**BRIGHTEST STAR:** The Chinese unit accounts for 75 per cent of Orind group's turnover

Orind has so many firsts in China that it is practically a case study for companies planning to set up shop there.

A Team **India Now** report.

**O**rind Refractories Ltd makes products that are used in steel-making furnaces. Some of them have to withstand temperatures up to 1700°C. So it doesn't raise any eyebrows when group managing director Rajeshwar Mishra, talking about the early days, says that one of the main problems was the temperature.

But it's not the heat that Mishra is talking about; it's the cold. Orind's major unit is in China, in the Yingkou Economic & Technical Development Zone in Liaoning province. "During the winter, the temperature goes down to -25°C," says Mishra. "We Indians are not accustomed to such weather. We knew what we were

letting ourselves in for. But this is where we had to be. The raw materials - the natural resources — are here."

During the construction phase, all work stopped for six months. Even work on the neighbouring expressway was suspended because it was too cold. During the long winter, the fishermen (Bayuquan, where



**RAVIN JHUNJHUNWALA:** Pioneering venture

the plant is located, was a sleepy fishing village a decade-and-a-half ago) hibernate. Even the fish seek warmer climes.

All this is history, of course. It happened when Orind was setting up its plant in 1995. But even later, the same problem did raise its head. "There was a power failure which lasted for three days," says Mishra. "Our heating equipment could not run. Almost all the Indians ended up in hospital." They were discharged soon, no harm done. "But wives and families don't stay on here during the winter," says general manager (personnel & administration) H.N. Mishra.

Deputy general manager P. Siva Subramanian remembers another problem of the early days. "The groundwater was red," he says. That's probably appropriate for China. But you need to set up facilities to make it potable or useable.

As with everything else in China, there are two ways to look at the water issue. First, it's a problem, because it needs expensive processing. Second, it's a promise. The reason the water is tinted red is because of the minerals present in the soil, the very raw materials that Orind needs for its factory.

"We saw the promise," says Ravin Jhunjhunwala, the Singapore-based chairman of the Orind group. He and Raj Mishra had visited China in 1988. The idea of a factory there had its origins in

that visit, when they discovered that China had an abundance of mineral resources. But it was a time when even MNCs were finding their feet in the country. Orind finally took the plunge in 1994, when it got its business licence. Production started in 1995.

This makes Orind the oldest Indian WOFE (wholly-owned foreign enterprise) in China. Ranbaxy was incorporated in 1993, but that's a joint venture (JV). "When we approached the Chinese authorities, there were no rules for WOFEs," says Jhunjhunwala. "In many ways, we helped the government to think about the necessity to formulate such rules."

Raj Mishra says that a JV has some advantages. The partner can take care of dealing with the government. If your principal market is in China itself, a JV is probably a must; you need local knowledge to sell. (Engineering company Larsen & Toubro, which has just set up a WOFE in Wuxi to cater to the domestic market, is an exception. The Chinese unit will supply to the companies it was serving from India. So it already knows its customers.)

The problem with a JV is that you never become part of the larger mosaic. Your plant could be in Tianjin or Timbuktu; it doesn't make a difference. You are basically a producer, leaving

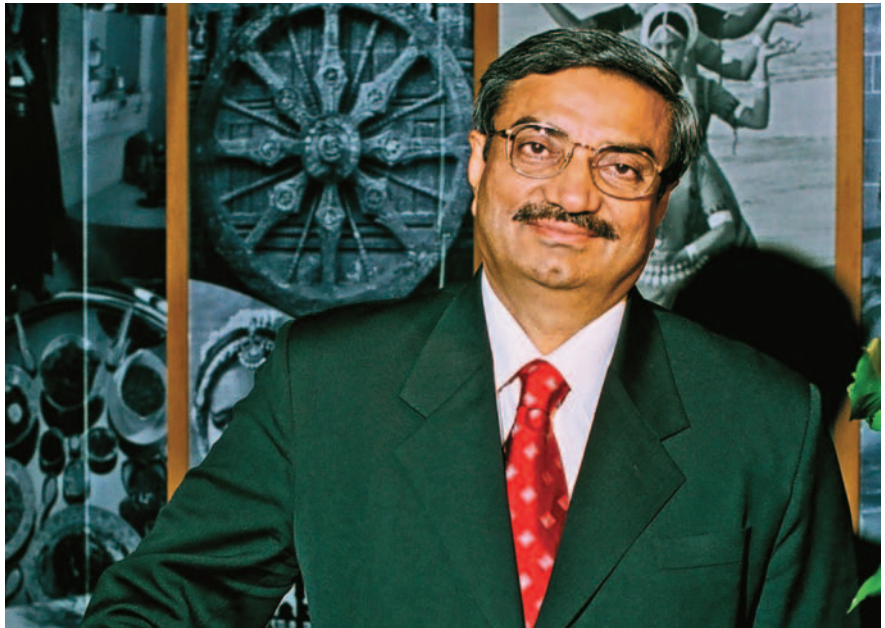
When we approached the Chinese authorities, there were no rules for Wholly Owned Foreign Enterprises.

everything else for the Chinese partner to handle.

The best of both worlds would be to start off as a JV, learn the ropes and then go in for a divorce. But such proceedings can be very messy in China. First, because of the language issues and the absence of clear-cut legal precedents or, in fact, a system, foreigners easily end up losers. Second, says Jagdish Acharya, regional vice-president (China, South Pacific and Australia) of Berger Paints: "The expectations of JV partners are too high." If you are to buy them out, they will ask for an arm and a leg.

Mishra adds that going it alone is not as difficult as some people would imagine it to be. The local officials bend themselves backwards in trying to help. The men at the top of the special economic zones (SEZs) have been handpicked by Beijing. All these zones are competing to attract foreign direct investment (FDI). This is a measure of performance. The men or women who do the best will be headed for higher things. There is a meritocracy in action here. The future leaders of China will come from these SEZ successes. "You ask for what you want," says Mishra. "Even if it is remotely reasonable, you will get it." You are, in turn, expected to hardsell the province or the SEZ to others, particularly back home in India.

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**RAJESHWAR MISHRA:** Aiming for gold

The other lesson that emerges from the Orind experience is on the labour front. There is no hire-and-fire policy here, which some in India seem to think is a must for SEZs to flourish. Disciplinary action is normally taken by the workers' union. Usually, it's a fine; only in extreme cases is a dismissal ordained. Yes, the Indian management is involved. "But if you are seen to be fair, you have no problems."

This does not mean that hire-and-fire doesn't exist in China. But it's mainly in cities like Shanghai, where local workers are expensive. There is a constant inflow from the rural areas, and these migrants are prepared to work at half the existing salary levels. "It is a strategy you can use for jobs that don't need any skills," says H.N. Mishra. "Otherwise, the cost of training makes the whole exercise unproductive." The one other thing Orind has learnt is that it is very difficult to change the mindsets and the habits of the Chinese people. For instance, the Chinese are used to lunch at 11 am and dinner at 6 pm. "You try and get them to follow Indian customs and you are asking for trouble," says H.N. Mishra. "If they don't get a lunch break at the right time, they don't protest or go on strike. They simply stop cooperating."

Orind has learnt some marketplace strategies too. The company is principally

in exports. It has been the leading exporter of refractories from China since 1997. "We are now looking at the huge domestic market," says Jhunjunwala. Some help may be needed here. And for this, there's a different strategy. The company has begun outsourcing products from local manufacturers, the target being 25 per cent of turnover. There are two elements to this. First, if demand does taper off at any stage because of cyclical factors, the amount outsourced can be reduced. The topline of the parent company will just remain unaffected, though the bottomline may take a small hit. Secondly, these outsourcing partners can help open up the local market.

From China, Orind is now spreading out. It started as Orissa Industries several decades ago. The company had two units at Barang and Lathikata in the eastern state of Orissa. After a partition in the promoter family, Ravin Jhunjunwala was given charge of the international operations. He set up companies in Singapore and Hong Kong as joint ventures with steel baron L.N. Mittal. The China venture was launched as a subsidiary of these companies. Jhunjunwala has a direct 50 per cent stake apart from his holding through the other companies.

While Jhunjunwala has been flourishing, the Indian branch of the family has not been doing so well. Orissa Industries

has turned sick. It has now been taken over by Jhunjunwala and is in the process of being nursed back to health. Jhunjunwala has also taken over another refractory unit belonging to B.K. Birla. This is in Kulti in West Bengal and has been christened Orind Bengal. Another greenfield plant has been flagged off in Bhuj (Gujarat). This is styled Orind West Coast.

Today, China is the brightest star on the Orind firmament. It accounts for 75 per cent of the group's turnover and has been growing at a compounded annual growth rate of 30 per cent for the past three years. The group's total turnover for the year ended 31 December 2005 was \$80 million. Jhunjunwala already has a footprint across 50 countries. He also has global manufacturing ambitions. "But I will do it my way," he says. "People come to me and ask me to take over this unit and that unit in this country and that country. But it does not make economic sense. I have my own plans and destinations."

"I want to make Orind one of the top brands of the world," he adds. In Beijing, Raj Mishra says that Orind will be the largest refractory group in Asia by the Beijing Olympics in 2008. "That is our motto put up on the walls of our factory," he adds. "It is our goal." By Beijing 2008, they'll strike gold. 🏆