

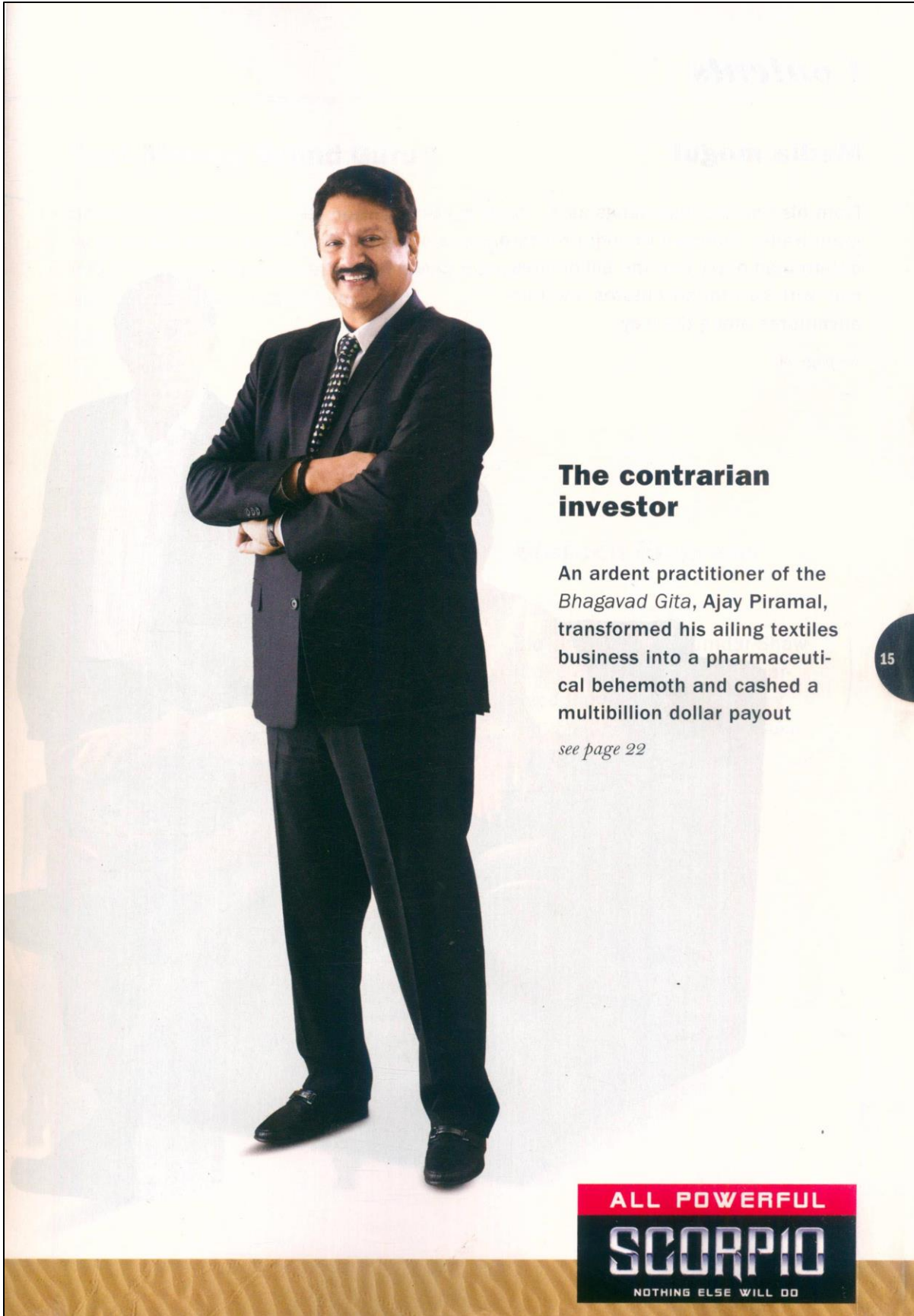
OUTLOOK BUSINESS

March 16, 2018
www.outlookbusiness.com

Think beyond. Stay ahead.



Left to right: Subhash Chandra,
Chairman, Essel Group & Zee;
Harsh Mariwala, Chairman,
Marico; Ajay Piramal, Chairman,
Piramal Group; Sanjay Lalbhai,
Chairman, Arvind



The contrarian investor

An ardent practitioner of the *Bhagavad Gita*, Ajay Piramal, transformed his ailing textiles business into a pharmaceutical behemoth and cashed a multibillion dollar payout

see page 22

SECRET DIARY of an entrepreneur



Most acquisitions fail because the CEO looks at it as a way of pulling off something remarkable. No one gets paid for rejecting a bad deal

AJAY PIRAMAL

I have learnt over the years that if you have failed in your commitment, you have no reason to get agitated at the person or the situation

SUBHASH CHANDRA

In the FMCG business, it is always small innovations, driven by common sense, that have made the difference

HARSH MARIWALA

You can't build a company alone. My success has been due to the fact that I have empowered and encouraged my team to solve problems

KIRAN MAZUMDAR-SHAW

Learning and destruction are part of the process. One has to be mature to spot the mistake and move ahead with time

KISHORE BIYANI

The ability to think out of the box, to stay focused against impossible odds is what takes you ahead of the pack

SANJAY LALBHAI

If you don't have a compelling competitive advantage, don't compete

PRAMOD BHASIN

Much of an entrepreneur's success depends on the team he builds. You have to hire people who are smarter than you

DEEP KALRA

SECRET DIARY of an entrepreneur

22

*“If you are dispassionate, you’ll win
— that’s my greatest learning from
the Bhagavad Gita”*

AJAY PIRAMAL

Chairman, Piramal Group

Interview & text by N Mahalakshmi



SECRET DIARY of an entrepreneur

I owe my success to	The grace of the Lord
Strength	Humility
Weakness	Art
Inspiration	Bhagavad Gita
Life Lesson	Your deep driving desire can become your destiny
Best gift	Values that my parents have given me
People you admire the most	Jamsetji Tata, who really built the foundation of Indian Industry & then gave everything back to society; Bill Gates & some of the masters that this country has produced such as Ramakrishna Paramahansa, Swami Vivekananda
Sounding board	Nitin Nohria
Success means	Being happy & spreading happiness around
Wealth means	The privilege to make a positive difference in the world
Indulgence	Indian modern art
Favourite Artists	Francis Souza and SH Raza
Greatest gratification	When I see the work of the foundation, where we try to make a difference to the lives of ordinary people
Advice to kids	To live a life based on values

Those days at Jammalal were such fun. I loved everything — the classes, friends, dating Swati and, of course, the lunch breaks! We had an hour-and-a-half for lunch and it was showing, literally. I had put on so much weight! I still remember the *vada pav*s we used to have in Lonavala. Swati and I would drive down there during the monsoons in the green Karmann Ghia or the Beetle. The days zipped

by so fast. I was the only one in the entire class who was married, a year before completing my MBA, as Dad didn't want me to wait. "If you've made up your mind, why delay things?" he asked.

Maybe, he knew what was coming. It could be why he pushed me into business so early. Business was always a priority for him. Both his time and money were rooted there. He wanted me to get acquainted with the operations right from my Bajaj days. It was a revelation watching him in action. He would never shout at anyone, no matter what went wrong. Nor would he shy away from empowering the people around him.

I had finished my MBA in 1977 and a year down the line my father asked me to run Miranda Tools, a cutting tool manufacturing business that my Dad had acquired. I started going to

Oh! my sweetheart!



Miranda's factory in Kandivli three days a week, independently looking at everything from sales to finance, even production. Dad knew I could handle it. When you are young, if you get the experience to start with something where the probability of success is the highest, it builds confidence in you. In some sense, Miranda prepared me for what was coming.

Dad had been complaining of pain for a few months. Those days, there was no angiogram or stents. So we went to the US. The investigation had not even started. We had just got a CT scan and returned to the hotel. Thirty minutes later, he was gone... just like that. We stood there shell-shocked. I was 24...

Barely two years later, Dilip wanted to go separate ways. We split on January 1, 1982. Ashok and I got the textiles business Morarjee



My wishes were horses, literally

Mills, and Miranda Tools. Dilip took VIP. All three were good businesses, but the year had more surprises in store. Just the second week, on January 16, all textile workers went on a strike led by Datta Samant. That strike would last 18 months, shredding the value of the textile sector. Those days, Ashok and I had no office to go to. We would keep going to different places and sometimes, to the Kandivli factory. He took it harder than me, was worried all the time. Being the elder one, he probably felt more responsible. When he was diagnosed with cancer, it was like being struck again. He was fit, he played tennis so well, we all thought he would recover. But the cancer had spread...It was August 1984. I was 29. During this period and even today, Swati continues to be my pillar of support. During that initial turbulent phase she kept saying "We shall overcome".

I don't know what gave me strength. It must have been something I learnt from Dad. He had great faith in God. What must he have gone through when I lost my memory?

I had fallen off the horse and couldn't recollect a thing. He

was the only one who was calm on that disquieting night. Mother was a wreck. Even the doctors were worried, but he kept his composure. I would learn this when I woke up fine the next day. Dad was always like that, he took both personal and professional problems in his stride.

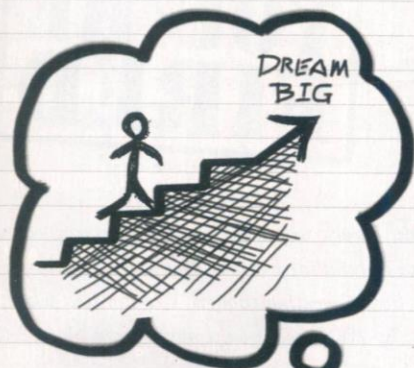
I was learning to be like him. I took over as chairman of the century-old flagship business that had turned sick. That got me a long queue of creditors, workers who were unwilling to work and the

additional responsibility of Ashok's family. Nothing was going right then but I had my faith.

Amid all the chaos those days, there was a fire in our mill. A local MLA blew things out of proportion, spreading a rumour that it was instigated by the management. Thankfully, the workers stood by us. The pooja in the office after the fire was a show of solidarity. We together sang the song "Hum honge kaamyab". It was the first time I addressed a gathering of 5,000 people. We offered them ₹3 lakh per employee, when the rest of the mills were giving about a lakh-and-a-half. They believed in me.

Every crisis is also an opportunity. It was the challenges in the textiles business that drove me to look at other businesses. If it had been doing well, we would probably have stuck to being a textiles player – after all the family had confined itself to the sector for so long. The foray into pharma was purely incidental though...

It was 1988. I was at a Sunday lunch at Sudhir Merchant's house when solicitor RA Shah casually mentioned that Australian MNC Nicholas Laboratories wanted to sell its operation in India. Right there, I made up my mind. On Monday, my bid reached the Nicholas group.



Start @ 48, and
stop not, till you reach 5

Learning the ropes, at Morarjee Mills



I knew nothing about the pharma business, just that the family once had a drug store. Kemps Corner not only housed a retail store but also a pharma business, which Dad had bought from Kemp & Company. Eventually, we had to shut it down because we couldn't run it successfully but we kept the retail space. I didn't realise it then, but pharma needs manpower for promotions and sales. You need medical representatives to go and call on doctors. Even if you have a ₹20 crore turnover, you need 100 people. In textiles, you can make ₹100 crore with just five people.

The Nicholas acquisition was pure serendipity. There were several others in the game — some who bid more than us; an investor who owned 10% in the company

SECRET DIARY of an entrepreneur

and had served on the Nicholas board; the top management, who had the backing of a financier to take over. We really stood no chance but ended up inking the deal! Of course, Nicholas had initially signed the deal with Reckitt & Colman. The latter backed out after they realised Nicholas had certain contingent liabilities on account of an excise duty dispute. We did an estimate, got the lawyers in, who said it was unlikely the liability would materialise.

**Grand blessing!
Thanks
to Madhu
Dandavate**



When you are putting in money as an entrepreneur, you look at the pay-off and take the risk. As a professional manager, you worry about a hundred things. I remember the meeting with Mike Barker, who was responsible for making this deal happen. I told him that all I have is a dream, an impossible dream to make Nicholas among the top five pharma companies in India. It was ranked 48th at that time. I don't know why I said something so audacious. I don't know if Barker got impressed by my ambition or my sincerity, but he did. We shook hands.

Years later, I and Swati met Barker in Kenya. He was in his seventies. He had retired. When we showed him the balance sheet, highlighting how Nicholas was now one of the leading pharmaceutical companies in India, he was delighted!

It was probably the toughest deal I ever did, not just because it was my first big one. Those were the days of Licence Raj. The Controller of Capital Issues (CCI) had to approve the deal price. I had asked the CCI to price the deal higher than others. The rest were peeved — some rivals were pitching for a lower price, with a view to settle some portion in overseas accounts. The company management professionals, who also bid, complained to some government officials. Former finance minister Madhu Dandavate raised the question in Parliament! It was sheer luck that Dandavate was an old family friend. He and my uncle were in jail together during the freedom struggle. When I went to meet him, he didn't recognise me. Our family name was Makhariya. But my father used my grandfather's name, Piramal, as his surname, and we continued the tradition. Once I explained all that to him, he heard me out. The deal went through... Nicholas was ours for ₹16 crore.

**YOU'RE
FIRED**

The first thing I did when I got into the driver's seat was to dislodge the management. I was naturally upset. How could I work with people who had connived against me? There was no trust there. I fired them! I had an unfamiliar business in hand and no one competent or trustworthy to guide and steer it. In that first board meeting though, I re-iterated what I had told Barker when I pitched for the deal: "This is 1988. By 2000, we should move from No. 48 to the top five."

At that time, Swati was already getting her public health degree from Harvard. Back in India, I was managing the business and Nandini and Anand's homework! They were 11 and 7 years old.

SECRET DIARY of an entrepreneur

I was 36. I wanted to sharpen my skills and understand the world better too. So I signed up for the Advanced Management Programme at Harvard Business School. I shifted to Boston with the kids, dividing my time between the hostel and our apartment. It was the best time we had as a family. Our favourite destination was the science museum in Boston! Later, Anand would also go to Harvard Business School... he always wanted to because of his childhood memories.

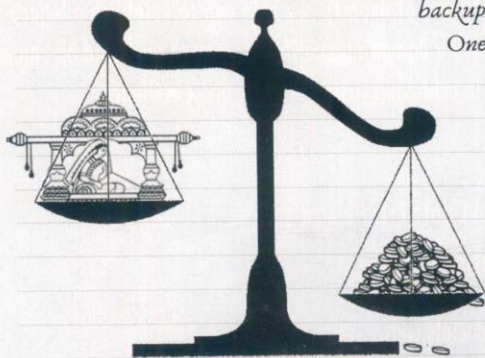


At HBS in 1999 - those were the best days of my life !

My eyes and ears were always open to acquisitions, so we could grow in rank. Roche was the next big deal that came our way. They had an old vitamin-A bulk drug manufacturing plant in Thane, which was giving them stress. An explosion in Shree Ram Chemicals factory in Delhi had created an uproar. The Supreme Court had come down heavily on the company, pinning down a lot of responsibility and liability. Roche was worried about operating the old plant.

I sensed an opportunity. We were on a great wicket thanks to Nicholas. But it had come at a huge cost. Nicholas only had an old plant in Deonar. We put up a brand new plant in Pithampur, which cost as much as the company's turnover at the time. Everyone dissuaded me from pursuing Roche, but I was clear. I didn't want to take any other route. What also helped was that Nicholas had some business in Europe, which Roche had acquired, so they already had some exposure to us.

Never imagined Roche would ask for dowry!



No matter how sincere your efforts though, the competition will never let go of things easily. During the Roche deal, the pressure was intense. The first presentation I made to them got destroyed in a fire! Those days, we only had prints, no backups. It was painful. The competition was on our heels.

One of them said, "Both of us want this so we'll only end up raising the price. Let's simply toss a coin and whoever wins can have the deal." I was categorical in my denial, I didn't want to toss a coin and leave it to luck. Then came the threat, "My family's well connected in Switzerland. I'll speak to someone on the board and we'll have the deal anyway (so why jack up the price unnecessarily)?" I didn't pay heed to any of this. There was no way I would toss that coin.

I flew down to Basel. I had given a free hand to Chandru Hattangadi, who along with Swati, had made an elaborate presentation. Roche held the largest number of patents globally. In India, they had a presence but no patents. Importantly, they didn't want to spend more in India. We, on the other hand, had money to spend on growth.

We thought they understood us. Till the evening, when we met for cocktails, everything sounded great. The next morning, when we saw their presentation, we were left distraught. It was completely one sided! They wanted us to invest in their plant, products, add people on the field and grow. Essentially, they wanted us to buy the company at a good price, spend more money to get it to their level and then give them control through six-monthly inspections!

Chandru came back in the evening with some scribbles. We were meeting again for dinner. He described the demands as dowry. But dowry for what? For an old plant? For products that showed no growth? His note said: "Roche is one of the largest holders of patents globally, is well known, and is looking for a partner in India to accelerate growth by rolling out new patented products in the country. The partner must be committed, come with all the required financial resources to make a new beginning, and they'll want to inspect and review the partner's performance every six months." It was like putting a chastity belt on a partner! The right to come calling and inspect every six months if there were violations!

Nicholas only had two conditions attached to the deal. One, that the quality won't be compromised. Second, we don't export using their brand name. This was because the cost of manufacturing was so low in India that it would end up burning their markets. I wondered for a few minutes if Roche's demands were a bit too harsh or we were being too harsh in bracketing it as dowry demands. Eventually, I decided to hand them the note anyway. We had nothing to lose. The next morning, the mood was different. They said let's talk pricing!

We got the brands, real estate, everything for ₹20 crore – it was almost free. I had gone with a lot of preparation, willing to pay. There, I found out that they were expecting a certain price after tax. They were, in fact, budgeting for a huge tax payout. My calculations showed there was absolutely no tax liability. I told them there was no need to argue over tax implications. I'll simply pay the post-tax price they were expecting. We had a deal. It was 40% lower because I had got my math on the tax liability right! I paid a deposit then and there, and signed the deal.

But as it turned out, Roche was still in touch with a competitor. They probably wanted to keep an exit window. Our friend got carried away, thinking the deal was going to be his. The day Roche broke the news they had inked the deal with me, he was an unhappy man. Again, what swung the deal in our favour was how we put the proposal across – like a marriage. In between the talks, visits to our plant in Pithampur and our credibility made a huge difference.

Then on, almost all multinational pharma deals came to our table first – Boehringer Mannheim, Rhône-Poulenc, ICI, the list goes on. When it comes to deals, it is important to put yourself in the shoes

Toss
a
coin
to
get
a
business?



SECRET DIARY of an entrepreneur

of the counter-party and see what they care for. Then, figure out solutions around that. We were never the highest bidder for any acquisition. We still landed deals because we had a keen sense of what the seller wanted and could meet that expectation.

Boehringer was a similar story. In 1996, two patients died in an eye camp after consuming a defective batch of Comsat Forte, an antibiotic manufactured by Boehringer. The company's MD Paul Stinson and other senior officials were so scared that they fled the country. Boehringer was a private company, owned by one of the richest families in Germany. They didn't want their reputation tarnished. The Asia Pacific head Dieter Dormann, was overseeing the operations of India. I told him let's see how we can resolve the issue. They were more than happy to sell. As it turned out, they not only sold us the entire company, with the brands and real estate, but also paid ₹100 crore so we could settle the potential liabilities! When we got that money in our forex account, an amused Reserve Bank of India asked:



Boehringer's crisis spells opportunity

"Are you buying a company or selling?"

With the Rhone Poulenc deal, too, the bankers involved in the transaction favoured a competitor. They tried to ward us off by extending the bid time. I called up a friend in Germany and got my point across to the management. The deal was ours. The ICI transaction was just iconic, the speed of that execution! CFO Mahesh Gupta had just joined and within a week, we closed the deal. He was stunned. He had never seen a deal happen that quickly. The mistake people often make is they don't take decisions, keep vacillating.

Those were the days I met the late Sumantra Ghoshal. I was on the lookout for someone whose opinion I could rely on. Someone who was not a banker! He was smart. I don't know how he figured out the tension between us. I was always guarded with him because he was also consulting with Ranbaxy. He then asked me to meet Nitin Nohria, who was like his disciple. The Rhone-



Piramal parivar : Swati, Anand, Nandini, Magic & Sunny; Anya at the Amateur Rider's Club!

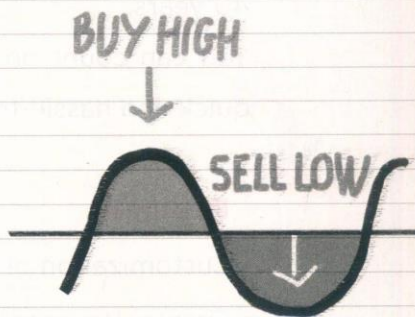
SECRET DIARY of an entrepreneur

Poulenc deal was on my mind those days. I asked for his opinion. He suggested a price far higher than I had thought. I was impressed by his logic – he had built in the benefits of integration! He burst the myth that mergers and acquisitions don't work.

Later, when he was offered the position as the dean of Harvard Business School, he simply told them he'll continue his association with us. As the dean of Harvard, you can be on the best boards in the world, but he stuck with us. That only strengthened the bond. Whether it is people or horses, once I am attached to something, the relationship, from my end, only grows.

One of the high points of my early life was horse riding. Mother took me to the riding club, which used to be near Shiv Sagar Estate (now Ceejay House). I grew so fond of riding that I started following father everywhere around the house, asking for a horse! I told him it wouldn't cost him much but he never budged. He was concerned that I would take to racing and gambling at a critical age. Years later, he would gift me one. Like a good grandfather, I have four for the family at the Amateur Riders' Club.

In life, you are free to choose the path you want but there will always be trade-offs. While we grew by acquiring and shaking hands with multinational companies, we could not capitalise on "generics". It didn't make sense competing with the companies we were partners with. We chose to grow our business through contract manufacturing instead, keeping the trust with global companies intact. Those days, there was a lot of mistrust so we didn't want to end up as competitors. We did decide to grow the research wing though, but didn't have much breakthrough. Nearly 15 years of research didn't work out. We had to write it off. Not everything works out, but you should be clear what you want. If you do, eventually, the bet will pay off.

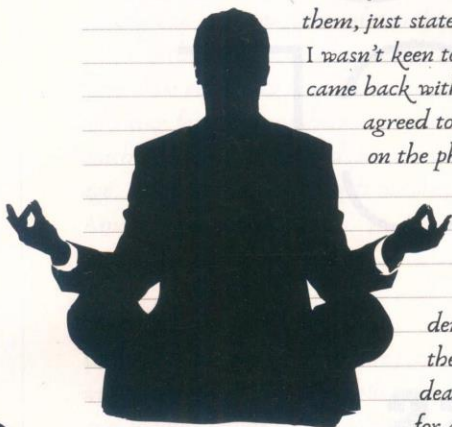


I had gone to Abbott's headquarters in Chicago to meet chairman Miles White. This was to get them on board for a contract manufacturing deal. When he came to India, we met for dinner. Before I could warn him, he had bitten into a whole red chilli. He was red! Once he had recovered, we spent the rest of the evening discussing pharma companies in India. He wanted to know which one would be worth buying. I was happy to oblige, not knowing then what he had in mind. A few months down the line, when Olivier Bobuon and team came, I invited them to see our plants. I showed them the whole business operation, thinking they were serious about our contract. I was so naïve. I only knew of their true intentions when they called to say they wanted to buy us!

I was least interested. The thought had never crossed my mind. I didn't react. Nor did I act. Then, one day, I just thought about it and said why not? There was no provocation really. But I wanted to see what lay here. So I called up a few bankers and they valued the company at some \$2 billion-\$2.5 billion. It left me unimpressed. We were not desperate to sell, they were the ones chasing us.

SECRET DIARY of an entrepreneur

Miles White, Olivier, Nandini and I met in Dubai. I consulted Nitin about the value – he was convinced we should ask our price. I had a three-page note summarising our business, our growth rates, profitability, distribution and quality standards. I made my case for a \$4 billion valuation. They agreed with every single point! There was nothing that could be disputed anyway, because it was all factual. We had slotted half a day for that meeting, it got over in less than two hours. They called a few times asking me to explain the valuation. I did. I never pushed them, just stated my price. There was no negotiation from my side because I wasn't keen to sell anyway. They started with a \$3 billion valuation, then came back with \$3.5 billion, then \$3.8 billion. I could have pushed but I agreed to close. My solicitors were getting scared... the deal was agreed on the phone.



40

**Keep Calm.
I am not interested**

Even at the last minute though – just two days prior to signing the deal, some Abbott officials were making a fuss about petty liabilities – some ₹100 crore or so. Again, the solicitors were worried. They kept pushing me to accept the demands for fear of losing the deal. I found it rather funny. I told them their chairman would be here in a couple of days to sign the deal. Could those officials afford to call off a nearly \$4-billion deal for a \$20 million issue?

Of course, the deal went through. That's my greatest learning from Bhagavad Gita — if you are dispassionate, you'll win. Till date, Abbott has not sacked any of our people. Several of the systems we followed continue, which gives me great satisfaction. The deal was a win-win, not just for shareholders. We made a killing! How could we not share it with the employees? I asked the board to give away about ₹100 crore as one-time bonus to employees, those who stayed with us and those who were to go to Abbott.

There's a simple logic to good investments: buy low and sell high. It's not rocket science. Most acquisitions fail because the CEO looks at it as a way of pulling off something remarkable. Bankers push a deal only for money, to go up the league table, earn a bonus. After all, no one gets paid for rejecting a bad deal. The key is to go against the tide and not get swayed by popular fancy.

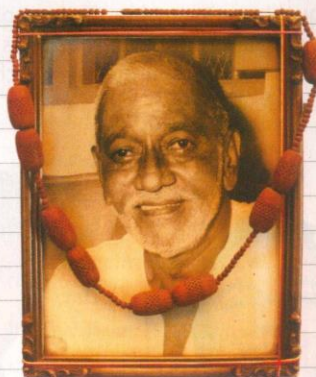
In the early days, when we were hunting for acquisitions, I faced more than my share of criticism. Analysts didn't believe in our story. There were voices of dissent — we had no organic growth to show, we were driven by only acquisitions, that's not a good strategy and so on. But it worked and worked beautifully. In the history of pharmaceutical deals, we got the highest multiples ever. When I bought these companies, I bought them at a third of their sales value. But when we sold them, we sold at nearly 10x sales. That itself gave us a 30x return!

It's all about recognising the risk correctly. There is so much criticism around our investment in real estate. Lending to developers is risky; the banks have to provision additional capital as risk weight. But for us, it is

almost risk-free. You have the project as a security. If you lend with a safe margin and the developer does not execute, you can take over the project at half the value, complete it and make your money. It's one business where you get to take over the assets without any baggage like labour or other costs. A bank can't take over a project and recover its money, but we can. We have the execution capabilities.

What has always helped us in the journey is the relationships and trust we built. If the Vodafone deal came to us, that too at a higher rate of return, it was because of the trust factor. The management believed we would sell out to them without any fuss when the time came. They did a deal with another large business house to hold the shares till the regulations changed, paying 12% per annum. But they came to us with a significantly better rate of return. We nearly doubled our money in two years. The ₹5,000 crore we invested in 2012 nearly became ₹9,000 crore in 2014.

My father's guru,
Kanu Bala - the quiet
teacher on my table

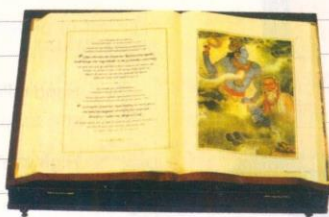


More than money though I have been drawn to people who sought value. Narayanan Vaghul's brilliance and vision in shaping ICICI caught my eye. When he retired as the full-time chairman of ICICI, I invited him to join our board. He had, still has, an innate knack of identifying the right people. It was he who introduced me to Aditya Natraj. After some great work at Pratham, Aditya would create an excellent programme around headmaster training.

Vaghul's simplicity was unmatched - imagine a man of his stature, living in a two-bedroom apartment without a single staff or servant! It was probably this facet of his that appealed to me, maybe because Dad also lived that way. I remember opening his cupboard after he died - he had exactly seven pairs of clothes. He used to spend just ₹1,500 a month on everything including his outings, clothes, and the modest indulgence of a peg of whisky once in a while!

Somewhere, his lifestyle shaped my thinking and steered me towards philanthropy. Let's face it, some of us end up spending more in a day than what people earn in a year. Being privileged, we can't be blind to the needs of society. The biggest learning in this area came from Vaghul. He opened my eyes

Bhagavad Gita:
the best business book



to three things: first, the problems in India can't be solved with the solutions that already exist, we need to innovate; second, we need to scale up to make a difference to the millions of people in the country; third, to achieve that scale, we need to partner with the government.

That's what drives me today. When my grandfather saw some success in business, he started a school in Rajasthan that gave admission to Harijans, something that was unheard of then. He also started the first girl's school. That's the legacy I want to carry forward - of being a change-maker in the true sense. 