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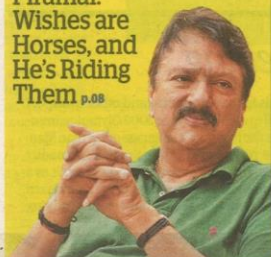
New Money in New Economy

How a clutch of new investors are helping end the funding winter in India's startup ecosystem

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Piramal:
Wishes are
Horses, and
He's Riding
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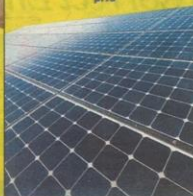
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Saddled Up for the Ride

Ajay Piramal, chairman of Piramal Group, wants to continue creating success stories by eschewing conventional wisdom

by Suman Layak

It has been a busy year-and-a-half for Ajay Piramal. A period of intense activity, as he puts it.

His diversified flagship company, Piramal Enterprises, has raised ₹7,000 crore of equity capital after a gap of 25 years. The group has also scaled up the real estate business under Piramal Realty and the financial services businesses under PEL, entering segments such as affordable housing and housing loans, started a stressed assets play with Bain, and begun an acquisition hunt in pharmaceuticals – possibly to re-enter a space Piramal had left in 2010. Hectic activity had also gone into an attempt to merge associate Shriram Capital (Piramal owns 20%, chairs the board and controls the management) with IDFC Bank. The merger was called off, though, in November 2017.

And then there was the matter of his role as director on the board of Tata Sons. Within month of his joining the board, Tata Sons sacked Cyrus Mistry as chairman, in October 2016, and appointed N Chandrasekaran, in February 2017. So crucial was Piramal's role in the affair that at one point, he was being touted as the next chairman of Tata Sons.

Today, Piramal can afford to chuckle about those rumours. With diverse businesses to run, the idea of taking over at Tata Sons did not make sense for Piramal. He, however, has a track record of taking decisions that do not make sense, at least at first.

Consider the decision to quit the Indian pharma market in 2010 and selling the business to Abbott, or the acquisition of an 11% stake in Vodafone India in 2011, and then entering the unrelated financial services business between 2012 and 2014. Piramal himself points further back – to the pharma entry back in 1988 by acquiring Nicholas Laboratories, and exiting the textiles business before that. He suggests there was a method in this perceived madness, and a unifying business philosophy guides all his decisions.

In a nutshell, Piramal, 62, sees himself as a trustee who must do the best for all stakeholders – and sometimes exiting a business is the best option. Piramal also says the key to his success has been his ability to jump into a crowded segment – be it phar-

On Firm Ground

Finance

Strong growth in the loan book, with structured finance touching ₹40,000 crore, and the company entering newer areas

Group companies to consolidate parts of the financing business and look at a larger retail play

With a loan book of around ₹68,000 crore, the stressed assets play in partnership with Bain is a big bet

Pharma

The business has shown strong growth. The company has 13 manufacturing units across the world but has not got any sanctions from the USFDA

It is also evaluating a re-entry into the Indian market as its non-compete agreement with Abbott runs out later this year

The FMCG play in pharma continues to grow in India

Healthcare Insights and Analytics

This business has found traction with an acquisition and an investment in a startup earlier this year

Loaded with Funds

Piramal Enterprises has raised both equity and debt in the last six months. It raised ₹2,000 crore through a rights issue in February and around ₹5,000 crore through compulsorily convertible debentures in the second half of 2017



BIHARAT CHANDRA

Piramal Enterprises in Segments (in ₹ crore)



Source: Firstcall Research

maceuticals in the 1980s or financial services now – find a way to address the segment's problems and offer something different. And he has "always taken the path less travelled" to find success. It has not been just horses for courses.

Mind Your Own Business

Speaking of horses, the businessman is a regular at Mumbai's Mahalaxmi Race Course. He can often be seen walking here, with his grandchildren (daughter Nandini's son and daughter). He owns many horses. And on a rare occasion, he still rides one, especially if egged on by the children. "Horses and dogs were part of my growing up years," says Piramal, as he settles down for an interview with *ET Magazine*, at the Amateur Riders Club near the race course in southern Mumbai. For over an hour, Piramal analyses his previous business decisions and discusses some of those that stare at him in the near future.

He was once the youngest president of the club, which takes care of horses for their owners. He led it for 10 years but has passed on the reins of the club to others. There are too many businesses eyeing his time. And that is precisely why the rumours of Piramal taking on the Tata Sons chairmanship were unfounded.

The chairman of the group with a market capitalisation of ₹45,000 crore is open about this. "I have my own business, why will I do it for someone else?" he asks. He, however, justifies the decision taken by Tata Sons to remove Mistry, and acknowledges that as a director, he was part of it. "In February, Chandra was appointed. If you see the amount of work that has been done in the past 13 months compared to the past five years, you can see the difference."

"In February, Chandra was appointed. If you see the amount of work that has been done in the past 13 months compared to the past five years, you can see the difference"

is a huge change for the better," he says.

He admits that the workings of the Tata Trusts, the philanthropic trusts that own a majority in Tata Sons, have left a big impression on him. He seems to have borrowed from the Tata Trusts playbook to fashion his own philanthropic arm, Piramal Foundation.

The foundation has decided to partner with the government and non-government organisations to scale up its projects. It has also decided to work on "25 aspirational districts" (read: districts affected by Naxal violence or ranking poorly on human development indices) marked out by the NITI Aayog.

He talks about taking schooling to islands in the Brahmaputra and remote places in Uttar Pradesh where children regularly become victims of animal predators.

'Privileged People'

The foundation takes about 10-15% of his time. "People like us are privileged, with our education and the jobs we hold. People like me are part of an even smaller fraction. There are very few who have the privileges I have, and, therefore, it is essential that we give back to society."

The work of the foundation fits well into his business philosophy, too. Explaining the philosophy further, Piramal mentions both Mahatma Gandhi and the Gita. He adds that the role of a business promoter like him should be that of a trustee: take care of the interest of all stakeholders who are beneficiaries – shareholders, employees, customers and society at large – but at the same time the trustee should not benefit himself. That is how, Piramal says, he has conducted his businesses all along and his big, counter-intuitive decisions all bear the imprint of the notion.

Piramal steers the discussion to his decision to sell the Indian formulations business to Abbott in 2010, noting that many people at the time did not "appreciate it". "After all, we were known for pharmaceuticals. But after a while you do not do things just for money." Piramal explains that when the basics of the Indian formulations business were worked out before 2010, it appeared that to make money in the long run, the business would have to grow at 20% for 15 years with operating margins of 35%. That seemed impossible. He explains that for the shareholders, selling was the best option. And with the new owners, Abbott, being a global pharma major, it was a good deal for the employees and customers, too.

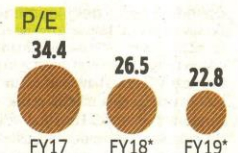
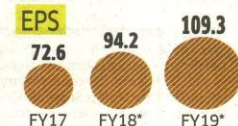
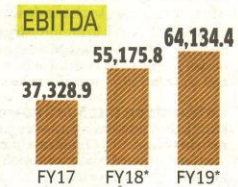
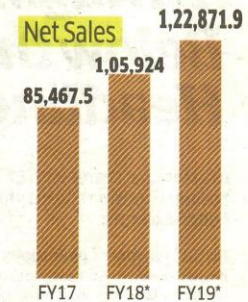
Explaining the Past

Talking about the past, Piramal is easily drawn back into the 1980s, when the family had a textiles business in Mumbai. Crippling and violent strikes that started in 1982 had brought the industry to its knees. Around the same time, Piramal's elder brother Ashok died, leaving the reins of the company in the hands of a young Ajay. There were 7,000 employees in the textiles business. Piramal recalls how in 1986 he walked out to a meeting with 4,000 workers, with a suggestion that workers accept a separation package, as the business was being wound down. "No one else could do it. But our workers knew we always have tried to do the best for them. I explained how they should accept the deal while the company was in a position to pay up," says Piramal.

He uses the experience of running the pharma business as an illustration of the second tenet of his philosophy. One of finding a different way of doing business in a crowded sector. He points out that when he acquired Nicholas Laboratories in 1988, it was the 48th company in the pecking order. But it went on to become the third largest by the time the business was sold. "We have always tried to read below the headlines," Piramal adds, "looking for a way to play the business differently."

A system of values unifies the credo of the group and defines its brands, he insists. Piramal has been the only major pharmaceuticals player in India who has escaped action by the US Food and Drug Administration (FDA). The company has seen more than 30 USFDA audits so far. The group still runs 14 manufacturing plants making complex generic products and is operating as contract manufacturing units for global pharma majors, and there has never been even an hour of stoppage of work due to regulatory scrutiny – something that has plagued the rest of the industry. "Quality control reports to my daughter Nandini, who sits on the board. It has the right to

Numbers Game (₹ mn)



All numbers are for Piramal Enterprises;

*FY18 and FY19 numbers are estimates;

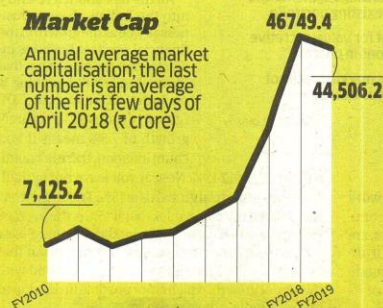
EBITDA is earnings before interest, tax, depreciation and amortisation; EPS is earnings per share; P/E is price to earnings

Source: Firstcall Research

Market Cap

Annual average market capitalisation; the last number is an average of the first few days of April 2018 (₹ crore)

7,125.2



Sales Versus Profits



In the April-June quarter of 2014, Piramal Enterprises had recorded an extraordinary profit due to the sale of its investment in Vodafone

Source: ETIG

"Always Look Below the Headlines"

Ajay Piramal shares with ET Magazine how he takes a business decision and his philosophy of business. Edited excerpts:

On his investment philosophy

Below the headlines is what you should look at. If you see every industry that we have been in, we have been there for many decades. There has been a lot of competition. But we have been able to find a different way of playing that industry. Our business philosophy is don't go by what the headlines say, but go below and find out what the real issue is; can you really work in the industry, can you make a good return. We will enter those businesses where we feel we can make a difference and are in harmony with our values.

On his role on Tata Sons' board

I think the Tatas have got a very good chairman in Chandra (N Chandrasekaran). I was also on the board when we appointed him. So I am as much a part of that decision (as anyone else). If you look at the amount of work that has been done in 13 months, compared with (Cyrus Mistry's) five years, you can see the difference. There is a huge change for the better.

On succession planning

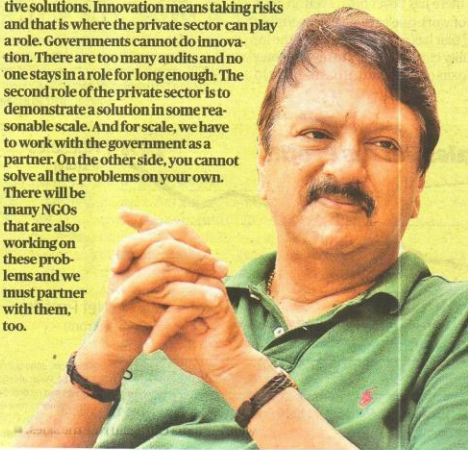
The children are taking more and more responsibility. Our organisation and culture is based on professionalism and values. I think my children reflect both. I see that more and more of our employees are also doing the same. So I am happy.

On his concept of trusteeship in business

The role of a trustee is to ensure beneficiaries get the best returns, without the trustee benefitting. This concept is not new, it is there in the Gita as well. This is also the concept Gandhiji also insisted on, that business should be trusteeship. So we also look at ourselves as trustees. We have four sets of beneficiaries: customers, shareholders, employees and society as a whole. Everything we do, we do it through that lens.

On India's social development and need for partnerships

We say we are the fastest growing economy, we are already a developed economy. Yet in some social human development indices, we are at the lowest rung. The level of poverty in some parts of the country is shocking. Nearly 71 years have passed since Independence and clearly the solutions that we have tried have not worked. We cannot bring solutions from other countries. I feel that we must get innovative solutions. Innovation means taking risks and that is where the private sector can play a role. Governments cannot do innovation. There are too many audits and no one stays in a role for long enough. The second role of the private sector is to demonstrate a solution in some reasonable scale. And for scale, we have to work with the government as a partner. On the other side, you cannot solve all the problems on your own. There will be many NGOs that are also working on these problems and we must partner with them, too.



"We look at ourselves as trustees. The role of a trustee is to ensure beneficiaries get the best returns. The beneficiaries are customers, shareholders, employees and society"

stop work at any plant at anytime. And it has always been like that," Piramal says.

Piramal then takes on the big questions. In 2010, the Abbott-Piramal deal was a \$3.7 billion (₹17,500 crore at the time) one and it left Ajay Piramal and the company with a lot of money. One of the first decisions was to invest in Vodafone by buying 11% in two tranches. The first, 5.5%, was bought in 2011 for ₹2,856 crore and the second the next year for ₹3,007 crore. The 11% stake was sold in 2014 for ₹8,900 crore, bringing in a neat upside for the company. "Many did not understand, but this was not just an investment. It was the beginning of our structured finance business," Piramal says. The business, he says, now has a book value of ₹40,000 crore.

Importantly, Piramal has the numbers to back himself today. The market capitalisation of Piramal Enterprises has grown by four-fold in the last seven years, from an average of around ₹10,000 crore in 2010-11, it has been moving around ₹45,000 crore in April 2018. The company's net profits have also stabilised (there were losses in some quarters in 2013 and 2014). Piramal Enterprises recorded a net profit of ₹490 crore for the September-December 2017 quarter.

In the course of the journey of the last four decades, Ajay Piramal has witnessed failures, too. While the falling apart of the Shriram-IDFC Bank merger was a recent one, another in the not-too-distant past was an attempt at new drug discovery, using traditional Indian knowledge. The business had to be closed down. "So it did not work out. It failed."

He adds: "I have always said that you have to fail. If you do not fail, it means you have never taken enough risks." Then he goes on to explain how accepting failure is also part of the philosophy. "I may believe in something, but if it is not working and is not giving returns, we have to close it down, because that is the right thing to do for the shareholders."

Value for Shareholders

The group is gearing up to give shareholders more value. Flagship Piramal Enterprises is preparing for one more set of restructuring that will separate the pharmaceuticals and finance businesses. A possible re-entry into pharma in India after the non-compete agreement with Abbott ends in the second half of 2018 is not a foregone conclusion, Piramal insists. However, with ₹7,000 crore of fresh capital in the bag, it might just be a question of time.

While the Shriram-IDFC Bank deal did not work out, Piramal points out that there will be opportunities to enter banking. Public sector banks, he says, are facing a problem that will have to be sorted out. If privatisation happens, he hints, it would present another opportunity for either Piramal Enterprises or its associate Shriram Capital to get in.

When the group had decided on a major financial sector play, especially after selling the Vodafone stake, there were two good examples to follow: Shriram Capital on the retail side and HDFC on the wholesale side. Piramal bought 10% in Shriram Transport in 2013 and then a 20% stake in its parent Shriram Capital in 2014. In 2015, Ajay Piramal's son Anand, who had incubated the realty business in 2012, raised \$284 million from private equity firm Warburg Pincus. Moving into home finance was the next logical step, and Piramal Enterprises took that in 2017.

Milestones

1988

MCap: ₹6 crore

Acquires Nicholas Laboratories

1989-2010

MCap ₹8,878 cr

Series of M&As, JVs and alliances and various organic initiatives give pharma business a push

Sells the domestic formulations business to Abbott in 2010 for \$3.8 bn, at 9x sales and 30x EBITDA

Sells diagnostic services to Super Religare Laboratories

FY2011-18

MCap: ₹45,300 cr

Creates a leading RE developer financing and sector-agnostic corporate finance group platform

Acquires stake in Shriram Group

Enters retail financing by launching home finance company

Launches emerging corporate lending business

Scales up the rest of the pharma businesses

Enters US-based healthcare insights and analytics business

Signs Vodafone deal

2018-19

Raises ₹4,996 cr and plans to raise another ₹2,000 cr through rights issue

Significantly scales up financial services business by adding products, expanding into new retail financing segments and growing existing portfolio

Looks out for value-accretive acquisitions in pharma

Improves margin profile of pharma businesses

Source: Company

Next Generation

Apart from Piramal's son Anand and daughter Nandini, his son-in-law Peter DeYoung is also part of the business. DeYoung heads the critical care business of the company. He says that while both his son and daughter were groomed to take up positions in the business, there is more to it. "Ours is a business family. I work, my wife (Dr Swati Piramal) works. My children too have imbibed the same values."

There are also big plans for the family investment vehicle, called Montane Ventures, to invest in the new-economy businesses. Piramal is not keen to talk about it. Investments made so far are too small. But Piramal does not rule out entering new sectors and businesses.

As the interview winds down, Suresh Tapuria, the current president of Amateur Riders Club, walks up to Piramal and ribs him about how long the interview has been and why Piramal has not eaten anything while talking. The camaraderie between the two men who have bonded over their love for horses over decades is palpable. Piramal laughs at the jokes but quickly returns to business. He indicates that future investments will also have to pass through a sieve of values. "We are a values-driven organisation and we stick to our values. After the Abbott deal, we had to say no to many offers in infrastructure and power. We felt the processes were not transparent enough."

All the talk about a re-entry into the Indian pharma business as well as the growth in the financial services business indicates that the biggest bet that Piramal seems to be taking is on India. "Our annual GDP (gross domestic product) growth of 7.5% means if you count inflation, there is a nominal growth of 12-13%. Now, if you leave out agriculture, then industrial growth is at 15%. That is the average, so I tell my companies that if 15% is the average growth we can have in India, we should look at least 20% growth in our companies." He points out that India is a large, \$2.5 trillion economy now and with this rate of growth, which is not possible in developed markets, India is the place to be. ■