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**SME Special Report: The Path to Recovery**

**Start-ups in Space: The New Rage**

**Ajay Piramal**
Chairman,
Piramal Group

## READY FOR BATTLE

**WITH DEALS IN FINANCIAL SERVICES AND PHARMACEUTICALS, AND A PLANNED DEMERGER OF PIRAMAL ENTERPRISES, AJAY PIRAMAL IS LOOKING TO UNLOCK GREATER VALUE**

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# Piramal's Progress

Aggression is the last thing which comes to mind when you meet the soft-spoken, gentle Ajay Piramal. But behind the warm smile and the amiable demeanour lies a razor-sharp business brain which spots opportunities and is ready to take on the competition with steely determination and a will to win. Indeed, this readiness for battle was in ample evidence when Piramal bid for the troubled finance company Dewan Housing Finance Ltd (DHFL) in a bruising battle which had Oaktree Capital and the mighty Adani Group vying for the debt-laden firm. After multiple rounds of bidding, Piramal emerged the winner and bagged DHFL, which will now be an important part of the Piramal Group's financial services ambitions.

Acquisitions are part of the Piramal Group's DNA, and Ajay Piramal is known for being one of the smartest investors around, someone who knows when to get in and, more importantly, when to get out of a business. Take, for instance, his exit from Vodafone India in 2014, where he made a hefty 52 per cent return in just two years as a financial investor or, even earlier, his mega pharma deal in 2010 with Abbott, where he sold the Piramal Healthcare branded generics business to the US pharma major for $3.72 billion, surprising the markets with the massive valuation of 9x sales and 30x profits. Piramal explains his philosophy simply, saying that the right acquisition must give good value. "You sell when perfect and buy when imperfect," he tells *Krishna Gopalan,* who gets you the cover story on Piramal's strategy following the DHFL deal and the announcement of a demerger of his businesses into two distinct parts—financial services and pharma. Post-demerger, Piramal Enterprises will house financial services (retail and wholesale lending, alternatives and investments), while Piramal Pharma will have CDMO (contract development and manufacturing organisation), complex hospital generics, India consumer healthcare, and ophthalmology. With son Anand and daughter Nandini now firmly entrenched, Piramal is gearing up to scale up both these businesses further. He says, going forward, the two pillars of the group will be financial services and pharma, and both sectors are serious growth engines for India. It is time for Ajay Piramal, then, to unveil Piramal 2.0.

In this issue, we also bring you a special report on India's small and medium enterprises (SME) sector, one of the most important growth drivers for the economy and a major employment generator. Our reporters bring you stories of SME clusters from across the country. *Vidya S.* tells you the story of the travails of the enterprises in the southern textile cluster of Tiruppur, *Rajat Mishra* travels to Kanpur to examine what the future holds for the tanneries and leather makers there, while *Prerna Lidhoo* gets you the ground report from the Pune-Chakan auto cluster, which is bracing for the EV explosion. The good news: there's also a digitisation wave quietly sweeping through India's SMEs, and, as *Binu Paul* reports, several start-ups are helping SMEs digitise and transform their businesses. BT

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PHOTO BY BANDEEP SINGH





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# AJAY PIRAMAL'S NEXT BATTLE

## AS HE MAKES HIS MOVES IN PHARMACEUTICALS AND STEPS UP ON FINANCIAL SERVICES, THE M&A CZAR IS AGAIN HUNGRY FOR GROWTH

BY **KRISHNA GOPALAN**

PHOTO BY **BANDEEP SINGH**

**AJAY PIRAMAL**
Chairman,
Piramal Group

**THERE IS A TRACE OF DISCOMFORT** on Ajay Piramal's face as he sits in a sprawling room on the first floor of his luxurious home in Mumbai's upmarket Worli Sea Face. A speck of dirt on his glasses refuses to go away. He tries to knock it off with his tie, but in vain. Finally, he asks one of his assistants for another pair. Once that sits well, he flashes a broad smile. In many ways, a lot is known about Piramal, yet he remains an enigma. The soft-spoken demeanour conceals the aggression of the feisty businessman. Quite rightly, he has earned the title of the M&A man. The growth story through the 1980s and the period beyond has been characterised by spotting that little nugget in a huge pile and nurturing it. "His buys will surprise you, but the timing of the exit is what justifies the deal," says someone who has worked closely with him for years.

This version of him is about getting ready for the next battle, driven primarily by pharmaceuticals and financial services. A lot of action is already done through buyouts, but Piramal is looking for more. His holding company, the ₹12,809-crore Piramal Enterprises, houses both the businesses, and a demerger has already been announced to create two entities. One, Piramal Enterprises, which will house financial services (retail and wholesale lending, alternatives and investments). And two, Piramal Pharma, which will further have four businesses—CDMO (contract development and manufacturing organisation), complex hospital generics, India consumer healthcare, and ophthalmology. The demerger, expected to be completed this year, will be a significant step in a new journey and lay the foundation for version 2.0 of Ajay Piramal.

## Strategy time

In May 2010, the then Piramal Healthcare sold its branded generics business to the US's Abbott Laboratories for $3.72 billion, implying a valuation of 9x sales and 30x profits. It left Piramal with areas such as over-the-counter (OTC), drug discovery, critical care and diagnostics. "The cash was in and we started to think what we could do now," he says. The decision to exit only a part of the pharma business was deliberate; what remained was the unsold bit and a lot of liquidity.

It is at this point that his daughter, Nandini, walks in. As Executive Director of Piramal Enterprises, she runs the strategy, HR and IT functions for the pharma business. "We sold two-thirds of the business, but that accounted for 95 per cent of the profit. What we really had now was just over 30 per cent of the pharmaceuticals pie and 5 per cent of the profit," she explains.

The opportunities in financial services, a business where the group already had a presence, was clear. The IL&FS crisis of 2018, which resulted in a squeeze in funding, changed Piramal's thinking. "We realised it could impact our pharmaceutical business. That's when we said it was important to separate it only to establish value," he explains. During the pandemic, Piramal sold his glass business, acquired DHFL in a long-drawn bidding process for ₹34,250 crore, and also managed to raise money. "The IL&FS crisis caught us on the wrong foot since we had a bigger presence in the real estate wholesale business. That was when we had to raise funds to the tune of ₹10,000 crore and we did [raise] ₹18,000 crore."

The phase after the Abbott deal also saw him making investments in the then Vodafone India and the Chennai-based Shriram Group. "Today, both pharmaceuticals and financial services are adequately funded with respect to equity. We have Carlyle as an investor in the pharma business and in financial services, cash is the only raw material, which can give you 25-30 per cent growth over the next five years." In April 2012, Piramal Realty, a Piramal Group company, acquired HUL's Gulita, a one-acre sea-facing property for ₹452.5 crore, which made way for the sprawling home where we are having this conversation.

When asked what the group will do as part of its continuous change, he jokingly says, "Ask the next generation." In a moment, he makes it clear that pharmaceuticals and financial services will continue. To him, the group has scale in domestic manufacturing. "There is also an OTC business that we have not spoken much about. On contract manufacturing, the world will continue to outsource and with our four plants in the US, we can offer global solutions, making it a huge strategic advantage," he says. What cannot be missed is how he mentions pharma as "a scale business", implying he is ready for that game with the current product portfolio and the M&A route.

Ranjit Shahani, erstwhile Vice Chairman & MD of Novartis India and a former key member of Piramal's management team, identifies a few attributes that make him stand out. "Ajay Piramal has an uncanny sense of timing honed of course by solid preparatory work done by his team. He has a clear strategic vision for what he wants to achieve and goes for it with missionary and evangelistic zeal," he says. That apart, Shahani gives credit to Piramal's negotiating skills to get the optimum value for his shareholders. "Piramal acquired the domestic businesses of Nicholas, Roche, Boehringer Manheim, Rhone Poulenc, ICI, Allergan, and HMR, and successfully grew each of them."

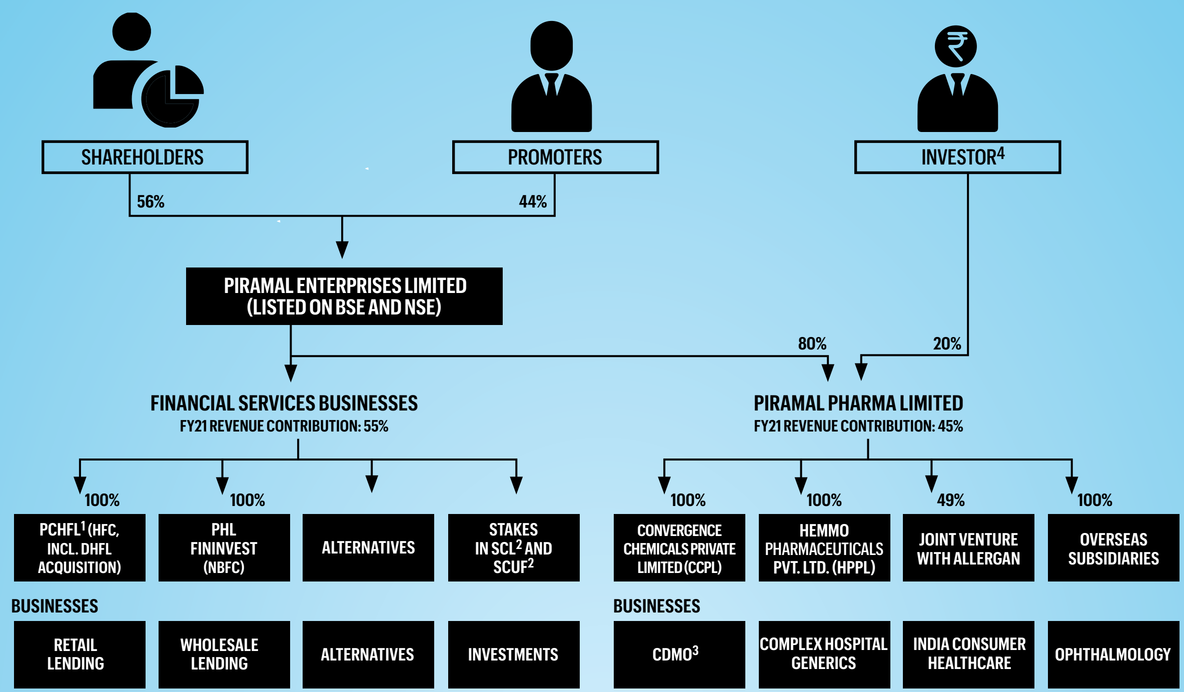
Having seen Piramal from close quarters, Shahani makes another point. "Facts tell but stories sell. Ajay and Swati (Piramal's wife) work as a close team and have always presented their proposals in a seductive story format supported by solid numbers and outcomes. This sets them apart from the usual excel sheet presentations of many of the competitive bidders to acquire assets." To Shahani, Piramal has positioned himself as "a partner of choice" across three decades in addition to developing solid trust with multiple global partners.

PHOTO BY **BANDEEP SINGH**

> **“We sold two-thirds of the business [to Abbott Laboratories], but that accounted for 95 per cent of the profit. What we had [left] was over 30 per cent of the pharma pie and 5 per cent of the profit**

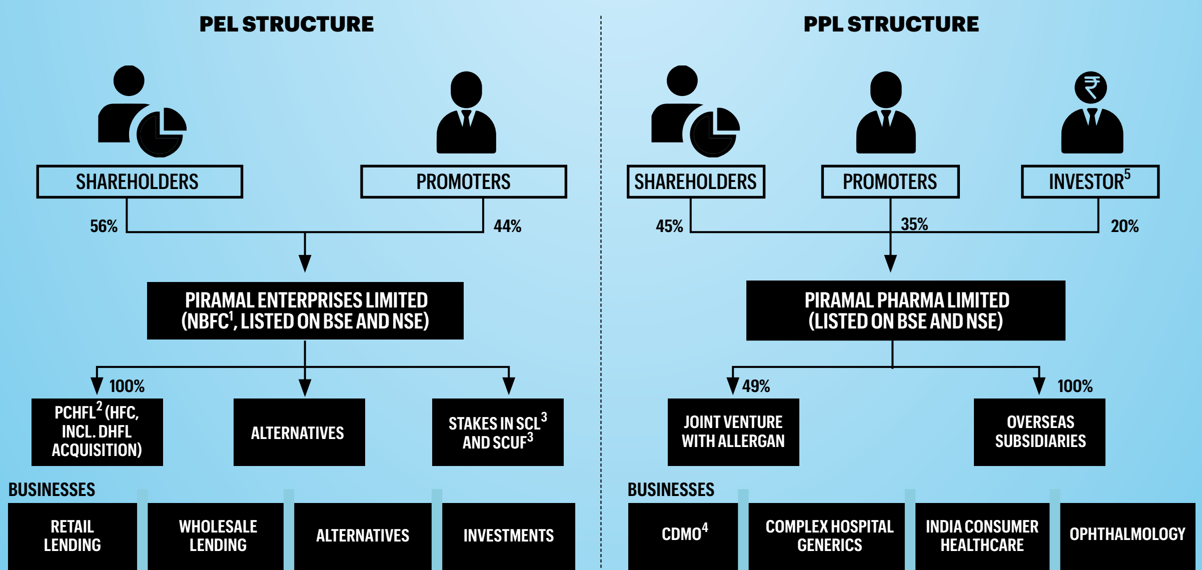
**Nandini Piramal**
EXECUTIVE DIRECTOR, PIRAMAL ENTERPRISES

# PRE-DEMERGER STRUCTURE OF PIRAMAL ENTERPRISES




**NOTES:** (1) SUBJECT TO NAME CHANGE APPROVAL (2) SCL: SHRIRAM CAPITAL LIMITED AND SCUF: SHRIRAM CITY UNION FINANCE (3) CONTRACT DEVELOPMENT AND MANUFACTURING ORGANISATION (4) THE CARLYLE GROUP. (SHAREHOLDING AS OF JUNE 30, 2021)

# EXPECTED DEMERGED STRUCTURE




- PHL FININVEST TO GET MERGED WITH PEL
- PEL TO BECOME LISTED NBFC[1] POST TRANSFER OF PHARMA BUSINESS
- MERGED HFC, POST DHFL ACQUISITION, WILL REMAIN A 100% SUBSIDIARY OF PEL

- PHARMA BUSINESS WILL GET VERTICALLY DEMERGED FROM PEL AND BE CONSOLIDATED UNDER PPL
- CCPL AND HPPL TO MERGE WITH PIRAMAL PHARMA LIMITED TO FURTHER SIMPLIFY PHARMA STRUCTURE
- SHAREHOLDERS[6] OF PEL WILL GET FOUR SHARES OF PPL FOR EVERY ONE SHARE IN PEL

**NOTES:** (1) SUBJECT TO RBI'S APPROVAL (2) SUBJECT TO NAME CHANGE APPROVAL (3) SCL: SHRIRAM CAPITAL LIMITED AND SCUF: SHRIRAM CITY UNION FINANCE (4) CONTRACT DEVELOPMENT AND MANUFACTURING ORGANISATION (5) THE CARLYLE GROUP (6) RECORD DATE TO BE DETERMINED FOR PEL SHAREHOLDERS. (SHAREHOLDING AS OF JUNE 30, 2021)

**SOURCE** INVESTOR PRESENTATION

“He has spanned the value chain from discovery and innovation to commercialisation. Besides, he has remained a trusted brand custodian for over two dozen global pharma companies.”

## Biting the bullet

Moving with the changing times is what Piramal has managed to do well. Post the DHFL buyout, he is investing “a lot in fintech and got in people from companies like Amazon”, he says. The focus on technology was also at the bidding stage when the group made extensive use of AI & ML. “We are looking at the fintech space for buyouts, too. Valuations have dropped unlike pharmaceuticals, where they are still high,” he adds. The plan for DHFL is to invest in technology or go for what he calls the “phygital approach”.

According to Deven Choksey, MD of KRChoksey Securities, Piramal’s strength lies in successfully building businesses and monetising them. “That is possible only because he manages to exit ahead of time,” he says. Choksey identifies the instances of Vodafone (return of 1.5x in two years) or now, the Shriram Group. “The acquisition of DHFL is another example. Here, it was a distressed asset and he has backed it up with professional management. During the period of expansion, money is raised (a case in point being Carlyle picking up a 20 per cent stake in the pharma business for $490 million) and backed up with technology as one is seeing in DHFL today,” says Choksey. To him, the latter is about rebuilding a business where the scope is huge. “If the journey is towards becoming a bank, the option is to go universal or digital or a combination of both. DHFL is already in the NBFC business with a customer base. The task on hand is to employ technology well and bring in the managers,” he explains.

**Piramal Realty, run by Anand Piramal, focusses on both commercial and residential projects and operates in and around Mumbai. It counts Goldman Sachs and Warburg Pincus among its investors**

The growth drivers for financial services in a market with low levels of penetration like India, says Bunty Chawla, AVP of IDBI Capital, are financial inclusion, formalisation of the economy, consumption behaviour and rising per capita income, among other things. “The buyout of DHFL bodes well for the Piramal Group’s own financial services portfolio since it is a diversification into retail home loans. This has lower asset quality risks compared to what one normally sees in the real estate construction portfolio.”

In terms of where DHFL’s business is placed today, Chawla points out it is focussed on self-employed retail home loans in the Tier III-VI centres. “Banks were reluctant to enter this segment due to lower formal earnings on paper for these consumers. In terms of opportunity, home loan (mortgage) to GDP in India is at around 10 per cent compared to 18 per cent in China, 34 per cent in Malaysia, 63 per cent in the US and 65 per cent in the UK, which is a good indicator of how under-penetrated India is." The route to growth for DHFL will be very different compared to what more established players with both a brand and distribution can do. "Others have to focus on direct selling agents initially for growth along with branch expansion and digitisation to reach the mass affluent," says Chawla.

Discussing DHFL, Piramal opens up on insurance. "We could look at general insurance as an opportunity. We don't need to be in every part of financial services since an end-to-end approach is not the way to do it," he says. The life insurance part—a joint venture with Pramerica—has struggled. According to Vineet Patni, Partner, Wepartner Consult LLP and ex-CXO at Bajaj Allianz and Bharti AXA, Pramerica is a powerful global player but not a business with any significant strength in India yet. "Besides, the brand is fairly weak and the company has changed hands over time. A limited online distribution presence is another challenge," he says. To his mind, the business, from where it is placed, will only end up consuming time without yielding any substantial returns.

The other piece is Piramal Realty, a company with a focus on both commercial and residential projects, run by Piramal's son, Anand. Its areas of operation are in and around Mumbai. In 2015, it had Goldman Sachs and Warburg Pincus coming aboard as investors. To Piramal, this is a period of consolidation in real estate with a demanding consumer and lenders who are a lot more conscious. "This is not like the pharmaceutical business and has a project-wise approach," he says.

On the realty business, Choksey says it is one that is hungry with a long gestation period. "It is not only about generating cash but understanding that some businesses like realty consume cash, too." The core business of realty has changed with margins dropping and challenges around land possession. "Obviously, Piramal realises that and will play the waiting game," says Choksey.

**Ajay Piramal's strength, say those who have observed him, is in successfully building businesses and monetising them. And moving with the changing times is what he has done very well**

## Inorganic it is

Speaking of the acquisition route, nothing is more obvious than what Piramal has done over time with pharmaceuticals. Nandini takes that thought forward and after having closed three deals (complete buyouts of Convergence Chemicals and Hemmo Pharmaceuticals and a 49 per cent joint venture with Allergan), is in the process of identifying capabilities. "We could look at brownfield opportunities since some deals are too expensive."

Mayur Sirdesai, Founder, Somerset Indus Capital Partners, a healthcare private equity fund with a focus on sustainable impact, points out that "with the non-compete with Abbott out of the way, and funding having come in from Carlyle, this is really version 2.0 for Ajay Piramal". Incidentally, in late 2020 the group sold Piramal Glass, a glass packaging business, for $1 billion to Blackstone.

Sirdesai is clear that inorganic growth for Piramal is still possible "with a lot of medium-sized companies dealing with issues such as the next generation not being interested or inadequate capital for expansion". For her part, Nandini picks the hospital generics business, where she says the distribution pipeline is good. "Here, we could acquire a portfolio of brands. Our strength in the pharmaceutical business is sales and marketing, and we do this very well," she says. To her, a significant shift has been looking at a segment like consumer wellness from a point when it was only about pharmaceuticals. "At the same time, we know where to draw the line and will not buy diabetics clinics, for instance."

Just in terms of scale, globally the CDMO and complex hospital generics businesses have a target market of over $50 billion each, while India's consumer health-care market is $6-10 billion.

Just why is a buyout a better strategy today? The top 300-400 pharma companies account for 85-90 per cent of the total market by revenue, while the balance comes from over 10,000 entities. In that sense, organic growth will do reasonably well but is unlikely to be remarkable. This is really where scale is critical to grow quickly. Sirdesai maintains the first version of Piramal was actually an aggregation strategy. "Interestingly, it was never looked at that way. He basically picked up companies at low valuations and knew how to monetise their real estate and integrate the acquisitions successfully to create a large pharma organisation," he says. According to him, Piramal focussed more on acquisitions and collaborations than a greenfield strategy to build his business. "It was an approach ahead of its time. Even when Abbott bought out a significant part of the domestic formulations business, they paid a premium since it catapulted them to the No. 1 position."

In many ways, the aggregator approach is seen today, too, but with a greater focus on niche areas such as hospital generics and consumer health, both being potentially large markets where players have found execution to be a hurdle. The understanding of injectables will stand Piramal in good stead apart from the experience of CDMO. "The challenge is that the business is tender-based leading to margins being under pressure. However, the overseas markets are more attractive, though one has to get it right on high levels of scrutiny on quality and ESG," says Sirdesai. On margins, India could offer 45-50 per cent at the gross level, but that number in other markets is as high as 70-80 per cent. Sirdesai is clear that pharma companies come with a mindset of that industry and not FMCG, though the opportunity does exist to build a large-scale business.

**"When he [Ajay Piramal] took charge of the family textile business at a young age, it was a huge challenge. It was not very large and the pharmaceutical part came much later, but he was quick to grasp it... over time, he and his wife began scaling up significantly"**

**HEMENDRA KOTHARI**
CHAIRMAN, DSP INVESTMENT MANAGERS

**"Facts tell but stories sell. Ajay and Swati (Piramal's wife) work as a close team and have always presented their proposals in a seductive story format supported by solid numbers and outcomes. This sets them apart"**

**RANJIT SHAHANI**
FORMER VICE CHAIRMAN & MD, NOVARTIS INDIA

Veteran investment banker and Chairman, DSP Investment Managers, Hemendra Kothari, gives Piramal credit when it comes to understanding a business well. "When he took charge of the family textile business at a young age, it was a huge challenge. It was not very large and the pharmaceutical part came much later, but he was quick to grasp it," he says. That foray not only gave Piramal an exposure into the business but also the importance of thinking big. "Over time, with his wife who is a doctor, they began scaling up significantly. Once they succeeded, they knew that the key was scale and since then, that concept comes very easily to them."

Through this journey, one does ask Piramal if an opportunity or two went past him and he now realises it might have been a miss. With a smile, he says that has never been his line of thinking. He does not stop there. With a sense of firmness couched very well in that soft voice, he says, "If we decide to go for something, we will get it." It is a sound indication of how much homework is done before pursuing an opportunity. Ajay Piramal is clearly keeping his eyes and ears open. BT

*@krishnagopalan*

PHOTOS BY **BANDEEP SINGH**

# ‘BUY IMPERFECT AND SELL PERFECT’

**Ajay Piramal, Chairman of the Piramal Group, reveals his M&A mantra and his plans for the pharmaceuticals and financial services businesses**

BY **KRISHNA GOPALAN**

**DOUBLE ENGINE** Ajay Piramal, Chairman of the Piramal Group, says both pharma and financial services are growth engines for India

**AJAY PIRAMAL has built a reputation of a shrewd businessman who can spot an opportunity before anyone else. Acquiring assets at relatively low valuations, the Chairman of the Piramal Group is known to build a business and then sell it at a handsome profit. He has done this time and again, and is called the "takeover man" with awe and respect. In the 1980s, he bought a fledgeling operation in the pharmaceuticals space, which he grew for the next three decades before selling out to US drug maker Abbott Laboratories for $3.72 billion in 2010. As Piramal looks to recreate some of that pharmaceuticals magic topped up with financial services now as well as real estate, there is considerable interest in what he is doing. In an interview with *BT*, he outlines his plans for the pharmaceuticals and financial services businesses, and his M&A recipe. Edited excerpts:**

***What led to your interest in financial services?***

Once we sold the domestic formulations business in 2010 to Abbott, we took a look at the landscape. The economy was growing, and with it the lending business too. Taking inflation into consideration, it was obvious that a 15-17 per cent growth each year was not impossible. We already had some experience of the lending business and real estate as well.

From a lending point of view, two companies stood out. For wholesale, it was HDFC and in retail, Shriram was big. The wholesale business could be built organically and we got started with that and real estate. When it came to retail, we liked Shriram. While wholesale grew, retail was proving to be a bit of a challenge. In Shriram [Piramal picked up stakes in three group companies and became Chairman of the unlisted Shriram Capital in 2014], there were issues around culture and it did not quite work out. Had we continued, it would have destroyed value in both the companies. But we still had to do retail. Therefore, a decision was taken to exit. Now, we said we will do retail [lending] within Piramal [Group]. However, it takes about 10 years to build a business here, as is clear from the successes one can see.

***Given the baggage of DHFL, what prompted you to bid for it so aggressively?***

We [had] looked at it even before it was referred to the Insolvency and Bankruptcy Code. That was in May 2019. There were too many cases and we realised it would be difficult to handle. When it did come up for bidding, we spent a lot of time in understanding the business. It turned out to be really competitive (*laughs*)! Historically, our track record has been very good when it comes to handling creditors.

We had a long-term approach in mind, while the others were looking to extract value. Over the last six months, we have added 4,000 people, apart from investing in technology. The process of rebranding is now on the anvil.

***How is your financial services landscape shaping up?***

Our balance sheet is one of the strongest. At the group level, our net worth for the pharmaceuticals business is ₹7,000 crore, and another ₹25,000 crore for financial services. That is stronger than many banks. There are always interesting opportunities and competition will be intense. That said, competition is actually reducing [in these businesses].

***Are you looking at a banking licence?***

Just looking at the NBFC [non-banking financial company] regulations today, I keep telling my team that we have to be 'bank ready'.

***What prompts you to take contrarian bets?***

I have always believed in looking beyond the obvious. When we acquired Nicholas Laboratories in the late 1980s, the multinational corporations in pharmaceuticals were looking to exit India. This was a market with low pricing and a lot of issues. We got the asset at 0.3x of sales. When we decided to exit the business, the talk was all about India being the best market. To us, the market had peaked out.

***What is your M&A mantra?***

The right acquisition gives you good value. It should not be perfect. In fact, my belief is that you sell when perfect and buy when imperfect. That's when the arbitrage of valuation comes in.

***What will your businesses look like in five to 10 years?***

The two pillars will be pharmaceuticals and financial services. Take the case of pharmaceuticals, where each of the businesses we play in is quite different. Again, in financial services, there is wholesale and retail, with each offering some serious growth potential. Both pharmaceuticals and financial services are serious growth engines for India and we would like to be significant players here.

***What are your plans for inorganic growth?***

It is in our DNA and we will also look for opportunities. Both the businesses we are in can grow that way. As long as we see value in making a buyout, we will do it. **BT**

*@krishnagopalan*

**OUR BALANCE SHEET IS STRONG... AT THE GROUP LEVEL, OUR NET WORTH FOR THE PHARMA BUSINESS IS ₹7,000 CRORE, WITH ANOTHER ₹25,000 CRORE FOR THE FINANCIAL SERVICES BUSINESS**