ADAPTING TO CHANGE

In Birla's 20-year transformation, a mix of caution and ambition

BY RUCHIRA SINGH & P.R. SANJAI

MUMBAI

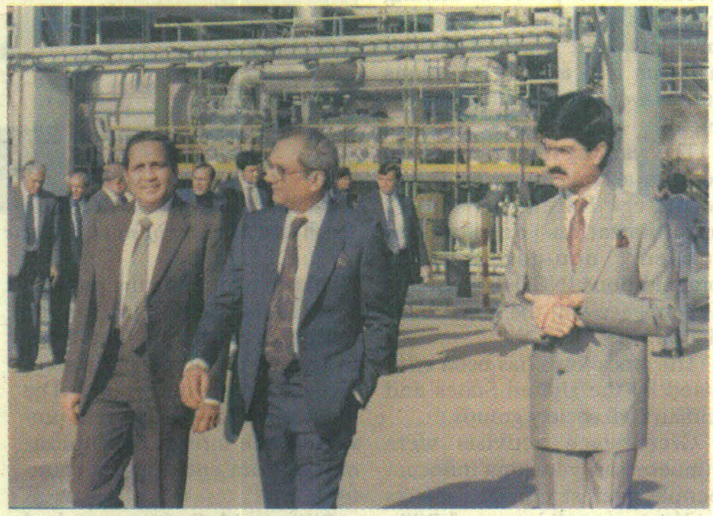
When the 28-year-old landed at Bombay's international airport 20 years ago from the US with the coffin of his industrialist father, the chips were down.

Aditya Vikram Birla, who headed the then $1.6 billion industrial group that traces its roots back to 1857, had passed away at a Baltimore hospital on 1 October 1995. The future of the group lay in the hands of his only son, Kumar Mangalam Birla.

Senior managers who reached the airport to receive the body were emotional—their chairman was only 52 when he died—but the junior Birla was calm and composed: A trait his associates attribute to him to this day.

"I was nervous. But instead of me consoling him, he started consoling me," recalls Sushil Agarwal, a whole-time director and chief financial officer at Grasim Industries Ltd, a close associate of the late Birla.

"He slipped a piece of paper in my hand and said he wanted to see me the same day. I rushed to his grandfather's house so I could meet him there," Agarwal recalls.



On the ground: *Kumar Mangalam Birla (right) and father Aditya Vikram Birla (centre) visit a factory with a colleague.*

Birla had scribbled instructions to organize a meeting the next day with all the directors of group companies in attendance. The new boss had listed a few agenda points he wanted to go over.

The next day, Birla met his top executives, many of them twice his age and some of them sceptical of the scion. The young Birla appealed for the support of his father's assembled lieutenants, including Askaran Agarwala, S.S. Mahansaria, S.B. Agarwal, Shailendra Jain and the late Mahesh Bagrodia.

A top investment banker who had overseen several significant transactions for the late chairman was at the funeral: "He mentioned to me there: 'I will be looking for your help... Be around... Come and meet me after a few days.'"

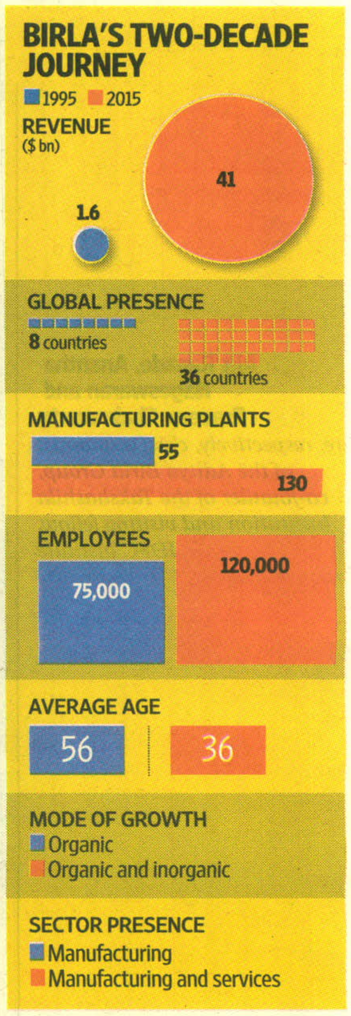
Old-timers at the group still remember the motivational appeal in a letter to his key executives that Birla wrote across a

TURN TO BACK PAGE ▶

Two decades of caution and ambition

FROM FRONT PAGE

MINT



PARAS JAIN/MINT

page-and-a-half, on the night of his father's funeral. Two days later, he was at the group's corporate headquarters. Work had begun.

Twenty years later, there are no sceptics left. Birla has acquired, expanded and explored new business horizons as he crafted the group's 26-fold revenue jump to $41 billion and spread to 36 countries. Along the way, he has transformed the commodity-centred group into one with interests in retail, telecommunications, branded apparel and financial services. The group, now India's third largest conglomerate, has set a target of $65 billion in revenue by 2016, though, as Birla told *Bloomberg News* in a November 2014 interview, it may be delayed.

M&A tiger

Birla's first high-profile acquisition came in 2001 when he bought Reliance Industries Ltd's (RIL) 10% stake in bluechip engineering firm Larsen and Toubro Ltd (L&T), whose cement unit competed with Grasim. Two years later, Birla bought a majority stake in L&T's cement unit and renamed it UltraTech Cement Ltd. Today, it's India's largest cement maker.

"Kumar was keen on working together with me on this deal. He displayed tremendous maturity and perseverance at a young age to see the transaction come through," recalled investment banker Nimesh Kampani, chairman, JM Financial Group.

"Once he makes up his mind, he goes for it. He is open-minded, sees logic but also takes good advice, makes a good strategy and then he works relentlessly... to achieve the goal," Kampani added.

The L&T deal was a precursor to what would follow. As his conglomerate grew to a market value of around ₹2 trillion, Birla has bought 37 companies, the highest by any Indian business house, according to three investment bankers.

"When he looks at an opportunity and wants it, he moves with speed," says Ajay Srinivasan, chief executive of Aditya Birla Financial Services, which saw two acquisitions—Apollo Sindhoori Capital and ING Mutual Fund. "He is very good at being able to figure out the strategic and financial angles... and therefore, what is the reasonable price to pay to get value."

In telecom, Birla moved in when others moved out.

Birla and AT&T group had jointly started a telecom venture in 1996, and the Tata group signed up three years later. But the prospects did not seem to be bright. Licence fees were high and most telecom players were making losses.

Birla wanted to quit. Tata wanted to quit. AT&T wanted to quit.

"Birla's net question was: 'Can it be among the top three'?" remembers Hemendra Kothari, chairman of DSP BlackRock, another of Birla's trusted long-term associates. "The only question we posed to him was 'if you know the business your father didn't have and the business is coming to some mature understanding of your own now, then why do you want to sell it off?' It takes a lot of capital (to build a business)."

Birla took the call. In 2006, he bought out his partners and renamed the company Idea Cellular Ltd. Two years later, in 2008, he bought smaller operator Spice Telecom, expanding his telecom heft.

"The reason the chairman decided to not exit and come back with a vengeance lay in his strong belief in the opportunity of consumption in the country... that in the long run, Indian population, just like that around the world, would turn to mobile for voice and data," remembers Himanshu Kapania, managing director, Idea Cellular.

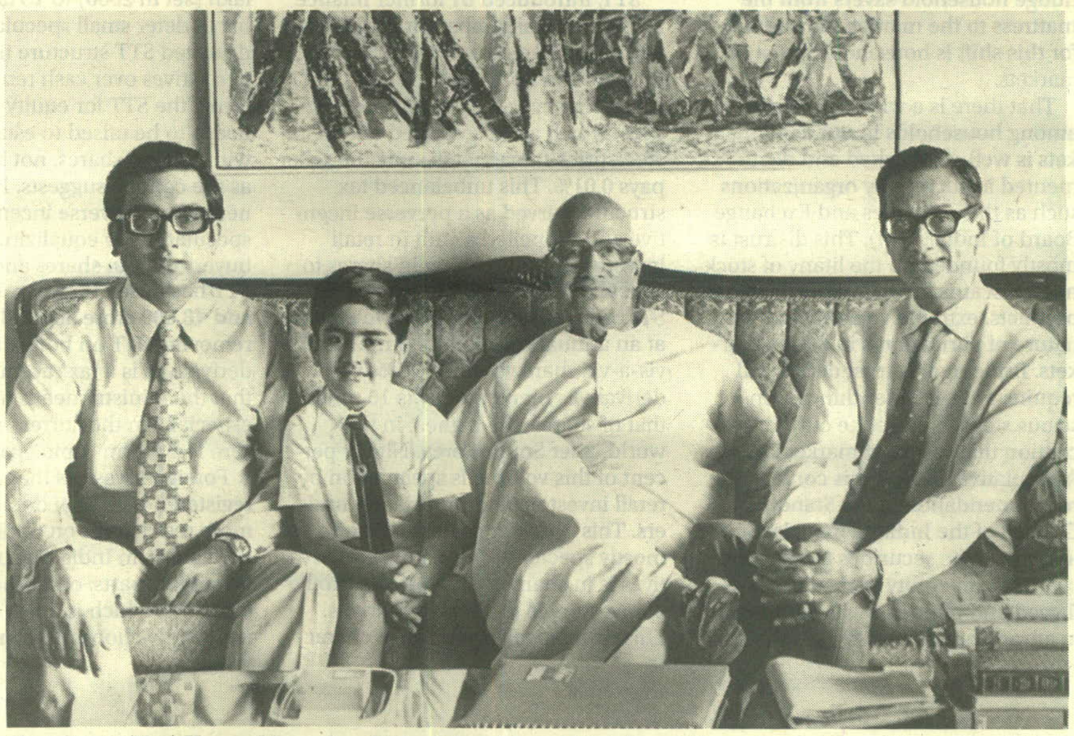
Idea Cellular has matched Birla's expectation: It is now India's third largest telecom operator, and according to Kapania, contributes substantially to group earnings.

The next year would see Birla's biggest buyout.

In 2007, group firm Hindalco Industries Ltd, India's biggest aluminium producer, bought North American aluminium giant Novelis Inc. for $6 billion, becoming the world's largest aluminium rolled products maker.

Acquisitions powered the group's growth, says Debu Bhattacharya, managing director of Hindalco and vice-chairman of Novelis. "The growth has come by virtue of all tricks written in the book. Organic growth, inorganic growth, within India, outside India, and in many cases, there have been acquisitions of a group company of another company which is many times bigger."

The Novelis deal revealed the scale of Birla's ambition, but the group was cautious on occasion, leading to missed opportunities.



The journey: *(Top) Kumar Mangalam Birla. (Above) from left, Aditya Vikram Birla, Kumar Mangalam Birla, Ghanshyam Das Birla and Basant Kumar Birla.*

Cautious, conservative

When the last National Democratic Alliance government put up state-owned Hindustan Zinc Ltd for strategic sale in 2002-03, it was Anil Agarwal, chairman of commodity conglomerate Vedanta Resources Plc., who won. Agarwal struck again in 2007, scooping up iron ore miner Sesa Goa Ltd from Japan's Mitsui & Co. Ltd. Both times, Birla missed out.

Meanwhile, the Hindustan Zinc acquisition made Vedanta one of the largest integrated zinc producers in the world. It also produced silver, which proved to be a hedge for Vedanta around 2008, when the global economic meltdown sparked a flight to safe-haven investments. Besides, zinc prices held up for a long time, even during the commodities downcycle.

Likewise, Sesa Goa, which could have gelled with Birla's unlisted Essel Mining, went to Agarwal. Sesa Goa earned high profits during 2005-08, when China aggressively bought iron ore to fuel infrastructure development, especially in the run-up to the Beijing Olympics.

Not all acquisitions worked out either.

The group, which ventured into business process outsourcing through a series of acquisitions, sold the business for ₹1,600 crore in 2014. It also disposed of a copper mine in Australia amid falling prices of commodities last month. Plans to enter oil and gas and power—seen as natural for anyone looking to straddle the entire commodities and energy spectrum—were abandoned. These showed that Birla was most comfortable expanding into areas where he was already well-entrenched, such as aluminium, fibre, cement and telecom.

Birla's future could be one where it straddles businesses in brick-and-mortar and new economies

Some say Birla is too conservative.

"I am not very happy about the management style of the Aditya Birla group. The management is not very aggressive as one would expect them to be," says S.P. Tulsian, an independent market analyst.

The Birla group, which has a large presence in aluminium and copper, will feel the pain of the commodity cooldown. The recent coal auctions, where Birla made costly bids for a handful of blocks, won't help either. If the coal market continues to cool, Birla would find cheaper coal in the open market than in its own mines, an analyst, who did not want to be identified, said.

"The group is still hugely dependent on commodity business, be it cement, aluminium or textile," says Anil Singhvi, chairman of Ican Investment Advisors, an investment banking and corporate advisory firm and also the former managing director and chief executive officer of Ambuja Cements Ltd, which competed with UltraTech. "For shareholders, Kumar Mangalam Birla could have created more wealth had he shifted from his mainstay in commodities play," Singhvi adds.

A top group official did not agree.

"I don't think he (Birla) has been conservative. The group went into these (new) sectors and came out. So, he has not been risk averse," says Rajiv Dube, director, group corporate services. "Then he has taken a call that there is much headroom for the existing manufacturing businesses to grow."

Coal case

Earlier this year, a government probe into allegations of improper allotment of coal blocks to private companies reached the Birla group.

On 11 March, special Central Bureau of Investigation (CBI) judge Bharat Parashar summoned Birla, former prime minister Manmohan Singh, former coal secretary P.C. Parakh and two Hindalco executives—Debu Bhattacharya and group executive president of Aditya Birla Management Corp. Pvt. Ltd Shubhendu Amitabh—to appear before the trial court.

The case pertains to the allotment of Talabira II and Talabira III coalfields in Odisha to a joint venture between Hindalco, Neyveli Lignite Corp. Ltd and Mahanadi Coalfields Ltd. in 2005.

Singh and Birla separately filed special leave petitions in the Supreme Court, seeking quashing of the summons. On 1 April, a division bench of the court stayed the summons. Meanwhile, the trial court has begun recording statements of other accused and is likely to begin trial soon.

CBI has named Parakh, Birla, Hindalco and other unknown individuals for offences under section 120-B (criminal conspiracy) of the Indian Penal Code and under provisions of the Prevention of Corruption Act, 1988.

"There has been no controversies surrounding Birla barring the issue of coal block allocation," says an analyst, who declined to be identified. "How it will impact them can't be said as yet."

An Aditya Birla spokesperson said the group maintained its stance of no comments on the coal case.

Digitally yours

What does the future hold, especially since the group has already grown significantly under Birla's command?

As times changed, the Aditya Birla group—among India's oldest business houses—has proven its ability to adapt and grow. It entered the services sector with retail, apparel and financial services and now has plans for e-commerce. Birla has now laid out a five-point agenda and each business has to incorporate them in their growth plans.

These are: Businesses must build digital capabilities as it is key to future revenues. All processes and products must upscale technological abilities. Even the most industrial of products must connect with end consumers. Employee care is key to implementing plans. And lastly, all must be done in a sustainable way.

"Going forward, we are going to see a lot of emphasis on building technology and sustainable business models around our existing portfolios as well as new emerging businesses that are driven by the technological revolution, digital revolution and sustainable revolution," says Dev Bhattacharya, business head, group corporate strategy, solar power and e-commerce.

Like many of India's traditional business houses, the Birlas are vegetarian and teetotallers. But as the group spread its wings across the world, butter chicken and Foster's beer have entered several cafeterias of the Birlas. Instead of fighting change, the group embraced it. For the group that has successfully transformed from being a largely commodity firm under Birla's stewardship, the future could be one where it straddles businesses in the brick-and-mortar and new economies.

ruchira.s@livemint.com

Apurva Vishwanath in New Delhi contributed to this story.