BRAVE NEW BUSINESSMEN

New entrepreneurs rewrite the rules, focusing on creating value, not just profits

By T. Surendar

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A decade ago, Amit Mittal was just another employee at state-owned oil company, Hindustan Petroleum. Mittal, 34, then quit his job to start something on his own. A few false starts later, Mittal has made a business out of managing waste in cities. His A2Z's enterprise value: Rs 2,250 crore. In Chennai, Rajiv Mittal bought out the company he was employed in, with the help of investors like ICICI to create an enterprise worth over Rs 1,500 crore in under a decade.

Thanks to India's high economic growth, it is not just the Ambanis and Birlas who are seeing their business scale up fast. Ordinary individuals like the Mittals are finding ways to latch on to new opportunities with smart thinking. These entrepreneurs are betting the shirts on their backs, selling large stakes in their businesses to private equity companies and investors like Rakesh Jhunjhunwala to quickly scale up and create stockmarket valuations.

In a growing trend, a tribe of new entrepreneurs with experience of a just a decade or so in business is debuting on stock markets with valuations upwards of $300 million. In contrast, even a decade ago, only a handful of Indian companies was valued at over $500 million. Says Mahesh Vyas, MD, Centre for Monitoring Indian Economy: "These are times when there is more value in creating larger organisations than going the small-scale way."

A younger and bolder generation is pushing the envelope in mature sectors too. Mumbai-based Bombay Rayon Fashions has become one of the largest garment exporters in the country, thanks to what is considered the brash investment style of its 37-year-old managing director, Prashant Agarwal.

Agarwal, who comes to office in jeans and works late into the night, invested over Rs 500 crore in building huge factories. He even acquired firms and a garment brand called Guru when his competitors were dithering on thinking big. Till 2003, only a dozen firms out of more than 10,000 had a turnover of Rs 200 crore. Bombay Rayon Fashions is today valued higher than established companies such as Bombay Dyeing and Raymond.

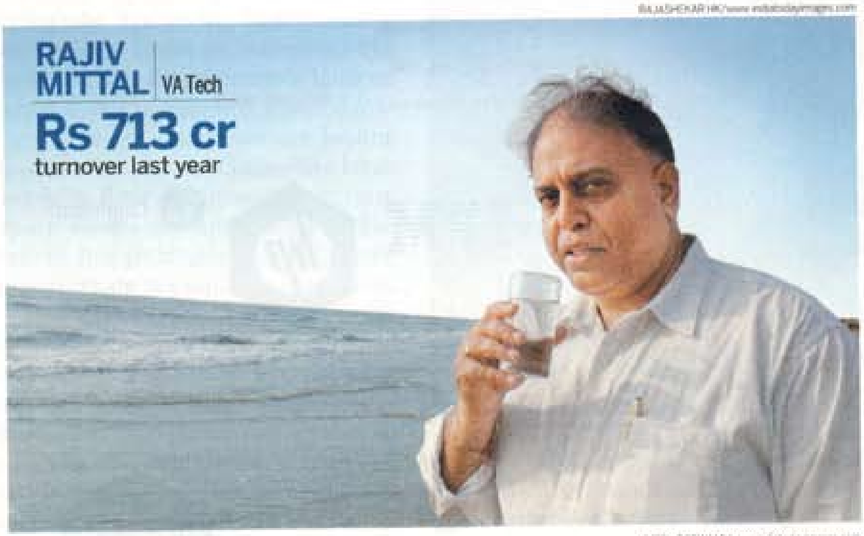
Some of these new entrepreneurs have taken the ancillary route, choosing to hitch their wagon to big companies. As Tata Motors more than quadrupled its domestic turnover from Rs 8,000 crore to Rs 32,000 crore in eight years, one of its component suppliers, Amforge, too grew in size. As Tata Motors sold more trucks, Pune-based forgings manufacturer Amforge increased sales of axles.

Others such as A2Z's Mittal thought out of the box. He began by maintaining towers for mobile phone companies and doing sundry work for power companies like Delhi's BSES. Mittal also cleared garbage at railway premises in Kanpur. Soon, he was removing garbage from all of Kanpur and, for the first time, charging citizens for garbage removal. A2Z is also among the few private power distribution firms supplying to towns in Rajasthan and Haryana. Mittal got the idea of power distribution from the fact that several companies were talking about setting up power projects but nobody was talking about cutting transmission losses. "Someone had to bring in efficiency," he says.

In a few instances, it was the absence of legacy that helped entrepreneurs take a fresh look at an existing business. When entrepreneurs Manoj Jain, Rajendra Kaimal and Ajit Kamath started Arch Pharmaceuticals, there were very few firms that focused purely on exports of drug intermediates to advanced markets such as the US and Europe. It took a lot of money just to get regulatory approvals and only companies with other sources of income such as Hyderabad-based Dr Reddy's or Mumbai-based Cipla invested money in getting US Food and Drug Administration approval for their products. But Arch's entrepreneurs were unshaken in their belief that eventually big pharma in the US and Europe would be forced to outsource to cheaper destinations like India. They were not counted among the large drug firms until recently when they filed a draft prospectus to make an initial public offer of shares. Last year, Arch reported sales of Rs 1,040 crore and a profit of Rs 95 crore, making it a top-five contract manufacturing firm in just 12 years.

Says Renuka Ramnath, managing director of private equity firm Multiples Alternate Asset Management: "There are at least a 1,000 firms out there that are potential candidates for investment." Ramnath has a track record of spotting investors like Rajiv Mittal of Chennai-based water treatment firm VA Tech Wabag. Ramnath's firm is working with 250 entrepreneurs who want money to expand their business and has just raised its first tranche of $250 million from overseas investors.

RAJASHEKAR HK/www.indiatodayimages.com



RAJIV MITTAL VA Tech

Rs 713 cr turnover last year

UMESH GOSWAMI/www.indiatodayimages.com

SHASHI KIRAN SHETTY Allcargo Logistics

Rs 2,600 cr turnover in 2010, an almost tenfold jump from Rs 270 crore in 2006

VA Tech's Mittal was just another employee of the Austrian firm's Indian operations. VA Tech was bought out by German company Siemens and the latter wanted to discontinue the water treatment business. So, when Siemens decided to sell, Mittal decided to buy. He approached Ramnath at ICICI Ventures. Ramnath, realising the venture's potential, decided to buy a 30 per cent stake in the company within a week of the proposal.

This is not the first time that the market is awash with entrepreneurs. In the mid-90s too, the stock markets saw a record number of initial public offerings. At the height of the frenzy, around the time of the Harshad Mehta-led stocks rally, there were days when 150 new offerings would hit the market simultaneously.

ICICI Bank chairman K.V. Kamath agrees the new set of entrepreneurs is imbued with fresh ideas. They are taking a cue from the overall explosion of the economy and international linkages, he says and adds these entrepreneurs are thinking in terms of creating overall value for investors than just focusing on profits. Citing an example, Kamath says an ICICI-funded firm, Mumbai-based Allcargo Logistics led by Shashi Kiran Shetty, embarked on a global acquisition spree in 2006, 13 years after starting out. The company's sales have grown nearly 10 times from Rs 270 crore in 2006 to Rs 2,600 crore in 2010.

In the '90s, business families listed their companies but retained majority stake. A2Z's Mittal offered a stake to Rakesh Jhunjhunwala at Rs 15 a share three years ago, when his business was still nascent. VA Tech's Rajiv Mittal did not mind giving away nearly two-thirds of his stake to ICICI Ventures when he was just starting out.

This is not to say that the several thousand small-scale companies dotting the country's industrial landscape will all be courted by private equity funds. Ramnath says she looks at businesses that are as small as Rs 75 crore today but have enough steam in them to be scaled up to Rs 400-500 crore. "It all boils down to how driven the entrepreneur is," she says. ■