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GAUTAM ADANI

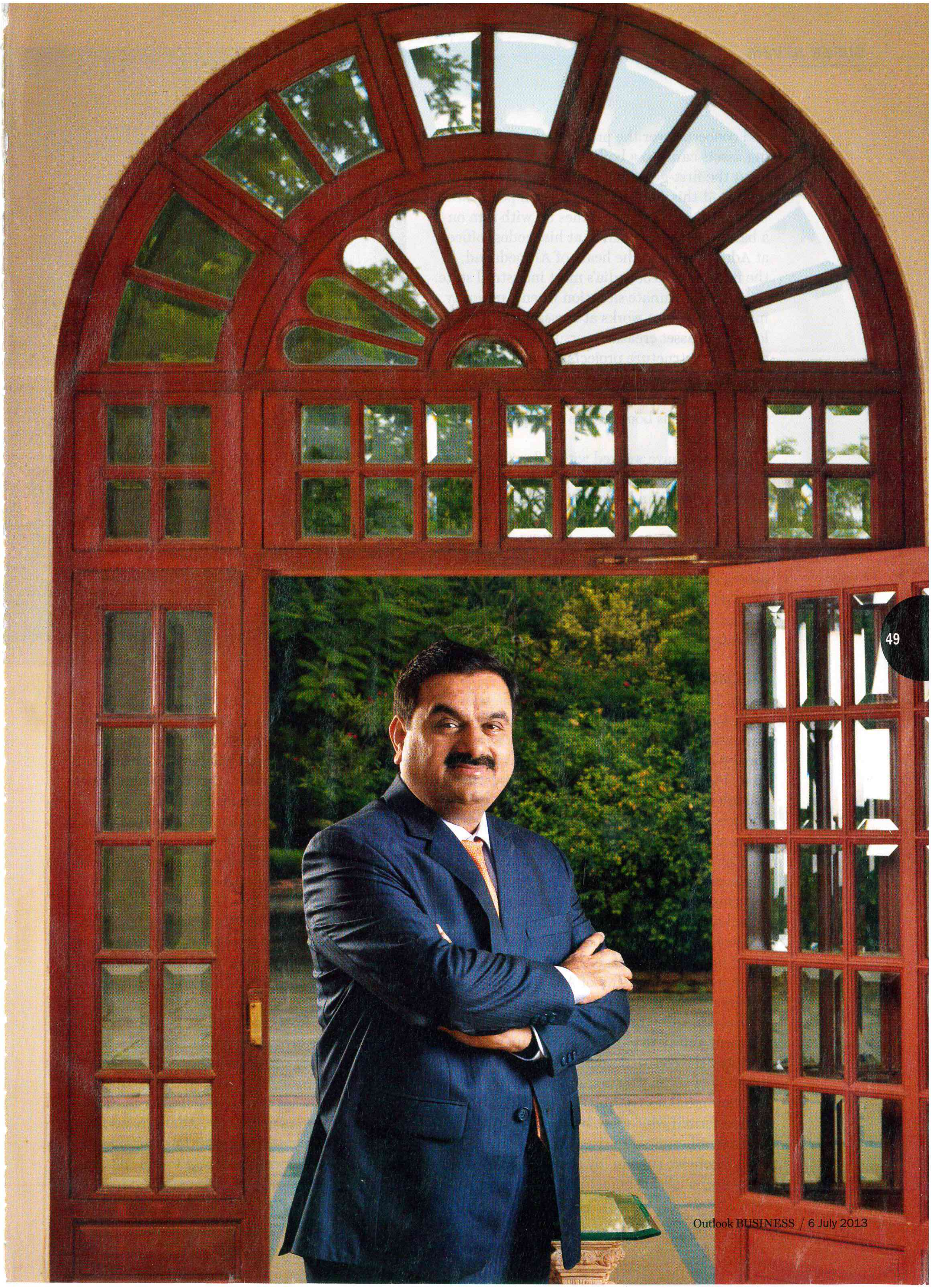
The alchemist

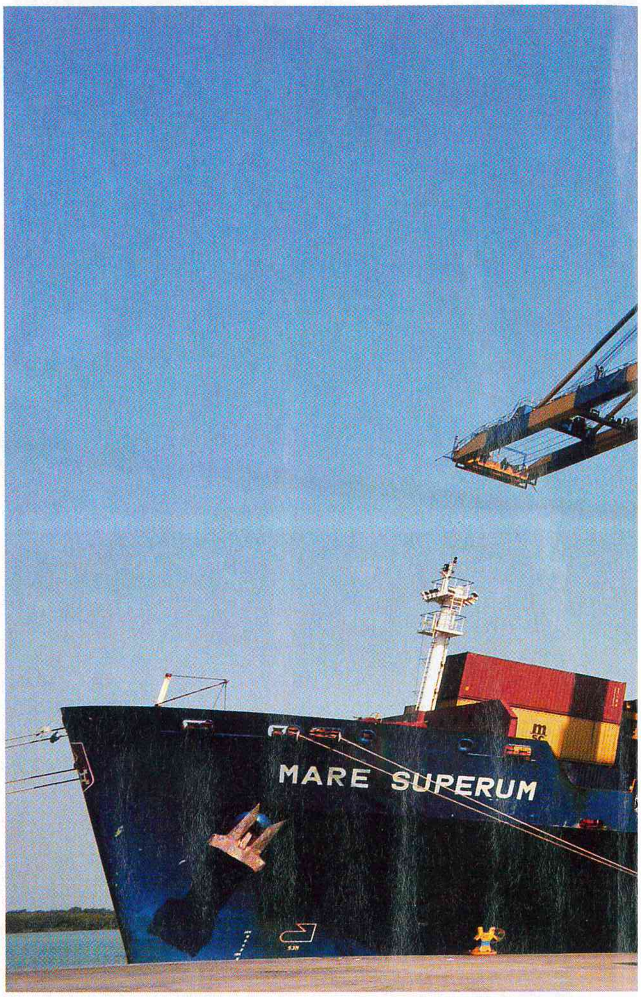
The Adani group founder, who built a trading and energy conglomerate from scratch, wants to keep playing for high stakes despite a hostile climate

V KESHAVDEV

Every man has his weaknesses, even if he is one of India's richest men. And who will know it better than his wife? "Though he doesn't have any favourites, Gautam just can't resist good food," smiles Priti Adani. But Gautam Adani's appetite is not confined to just gastronomical pursuits, it's amply visible in his business too. And that largely explains how a one-time small trader today straddles a business empire with interests in resources, logistics and energy. From ₹674 crore in FY95, group revenues, comprising the listed trading, ports and power businesses, have surged over ₹47,000 crore as of FY13, a CAGR of 27% in 18 years. The breakneck growth, though, has come on the back of a gigantic leap in leverage within the group over the same period: from ₹33 crore to around ₹49,000 crore — which investors are jittery about. Not surprisingly, the market cap of Adani Enterprises, Adani Power and Adani Ports & SEZ has tanked by 74%, 67% and 17%, respectively, since November 2010 (when the Sensex hit a closing high of 21,000) as the economic slowdown, coal supply and tariff issues, environmental controversies

PHOTOGRAPHS BY SOUMIK KAR





and concerns over the progress of overseas mining assets came to a boil.

But the first-generation billionaire, who turned 51 this June, seems far from perturbed when *Outlook Business* catches up with him on a balmy Saturday evening at his modest office at Adani House in the heart of Ahmedabad, the nerve centre of India's most industrial state. "It's an unfortunate situation when a minority investor's interest works at cross-purpose to the long-term asset creation pursuit of an entrepreneur. Infrastructure projects are all about long gestation and high leverage in the early days, but when investors are so focused on short-term returns, there is bound to be disappointment," says Adani.

Those who have worked with Adani point out that while the business environment appears daunting, the man himself continues to be focused on his vision of achieving his publicly-stated 2020 targets — 200 million metric tonne (MMT) of coal trading, 200 MMT of cargo handled and 20,000 MW of power generation capacity. And if past performance is any indication, the days of guts and glory are far from over for the Adani empire.

THE EARLY DAYS

Adani Ports director Malay Mahadevia still can't forget the day when he was part of a small entourage, led by Adani, that made its way to the top of a lighthouse at Mundra. "Within no time, the lighthouse was surrounded by waves in high tide. The moment got the better of us and we questioned Gautam*bhai*, 'What do we know about the ports business and why get into it?' But a nonchalant Gautam*bhai* had the whole port in his mind as he took us through an imaginary blueprint," recalls Mahadevia, who ended up joining Adani in the early 1990s when he went to his childhood friend seeking his help to set up a dental college.

The remarkable ability of Adani to convert his dream into reality is not the outcome of any formal education but has more to do with his inherent ability to gauge opportunities early on and stay the course despite the odds. Born into a family of seven siblings, Adani's father was into commodities trading. "Although my father lacked formal education, he was a good trader and never hesitated to trust his instinct. A trait that, I believe, runs in my genes as well," says Adani, who left his hometown to come down to Mumbai in the 1980s to join the diamond trading business, which was then considered a growing business. Though he tried to pursue a degree from Hinduja College of Commerce, Adani found it difficult to manage both, classes and work at Zaveri Bazaar, the hub for gems and jewellery traders in south Mumbai. So he dropped out, a decision he has never regretted. "Sometimes, being too educated tends to make an individual more risk-averse — a trait alien to an entrepreneur's core DNA," quips Adani, who remembers his first trade with a Japanese buyer. "It took me four days to seal the deal but fetched me a commission of ₹10,000. That deal gave me the confidence that I could do business on my own."

A year later he returned to Ahmedabad to join one of his brothers who had bought a plastics unit. But against a monthly requirement of 10 MT of PVC resin, they were getting a quota of only 2 MT. In what was to become his characteristic entrepreneurial style, Adani monetised the shortcoming and turned it into a money spinner. "It was more profitable to sell the quota in the open market than to manufacture PVC

In the early 1990s, Adani had a thriving trading business and that was largely instrumental for the group's foray into the ports sector

films," recalls Adani, who went on to capitalise on the new export-import policy in 1985 that allowed most raw materials to be imported under the open general licence, and also marked the birth of Adani Enterprises (then Adani Exports). In the following, years, Adani became one of India's largest polymer importers, surpassing very large established importers from Mumbai and Delhi.

In 1994, the company went public but, as Adani puts it, the flip side to being listed as a trading concern was the view within the financial fraternity that since the company did not own any assets, it was a risky investment. In many ways, that perception triggered Adani's pursuit of asset creation, though the foray into infrastructure was more providential than by design. In 1994, Cargill had approached the Adanis with a proposal to establish a salt works in the Kutch region. "We required about 30,000 acres of land to harvest the salt. Also, to facilitate the evacuation of the salt, the American company suggested that we jointly build a captive jetty at Mundra. We agreed to an equal stake joint venture but, following the government's decision to allow 100% foreign direct investment, Cargill pushed for 89% stake. This was not acceptable to us and so we pulled out of the proposed venture," says Adani. In many ways, that was a big inflection point in Adani's career.

COMING OF AGE

Though the Cargill deal fell through, Adani still had a thriving trading business and that was largely instrumental for the group's foray into the ports sector. "Severe congestion at ports meant that our own consignments were getting delayed. So the first motivation [to enter the ports business] was to strengthen our own global trading. In 1995, during the Gujarat state assembly elections, the BJP government announced its manifesto on industrialisation of Gujarat. A key part of the manifesto was utilisation of the vast coastlines that the state possessed to build port infrastructure. "We were traders and had absolutely no experience in building anything — not even a simple building, let alone ports. But the opportunity was too huge to miss," adds Adani, who credits KD Agarwal, former chairman of IFCI and the then-chief general manager of the institution's Ahmedabad branch, for reposing faith in him rather than the project, since those days appraising a port project was still an alien concept for institutions.

Around 1999, when nephew Pranav Adani joined the business after completing his studies from Boston University, Adani was exploring a venture with Singapore-based Wilmar, Asia's second-largest edible oil conglomerate. "At that point in time, there was no concept of port-based refinery, but Gautam*bhai* decided to set one up," recalls Pranav. The biggest edible oil refinery in the country then had a capacity of 300 MT per day. Though Adani wanted to set up a 1,000 MT refinery, the general opinion veered towards a plant of around 400 MT. "Finally, we settled for 600 MT. But within a year of operations we had to hike the capacity to 1,000 MT. It just proved that there was a reason for the kind of scale that Gautam*bhai* had first envisaged," adds Pranav, who is managing director of Adani Wilmar and also looks after the group's agri business. Today, Adani Wilmar has emerged as India's biggest seller of packaged edible oils by volume and its Fortune brand enjoys a market share of over 17%.

Adani continued to be on the mark when it came to sizing up opportunities. A couple of years later, in 2002, the government-owned Food Corporation of India (FCI) floated a tender for setting up storage facilities under the build, own and operate scheme. Adani bid for the tender and won the first deal with FCI, a good three years later.

"Gautam*bhai* believed that foodgrain storage would be a big opportunity in the future and stayed the course, despite a three-year delay in the final allotment. That just goes to show his tenacity," explains Pranav. Today, the group is looking at setting up ultra-modern, silo-type facilities of 2 million tonne capacity. But there were also ventures that Adani failed to capitalise upon. As he himself puts it, "Entrepreneurs have to spend time effectively. If the time spent to nurture a business is disproportionate to its potential, it's better to exit the venture." The group, which had forayed into retail and information technology, cut its losses and exited the ventures in less than three years. But the biggest learning for Adani was when the group found itself in a financial mess at the turn of the millennium.

"Our foray into ports was also a lesson in finance: one that differentiates between short-term finance and long-term capital. As traders, we were used to seeing trades getting self liquidated but here was a venture where we were continuously investing money from our trading business but it was not throwing up cash," recalls Adani. In 2003, the group sold its container quayline to P&O Ports for $195 million and became debt free.

If challenges were one part of the story, the ingenuity of Adani's thinking and ability to

The making of an empire

1988
Starts as a commodity trading firm

1995
Expands into port business

2000
Adani Wilmar set up under a joint venture

2006
11 MMT of coal – largest thermal coal importer in India

2008
Buys Bunyu Mines in Indonesia

2010
2.2 MT/annum edible oil refining capacity – one of the largest in India

2011
10.4 billion MT of coal reserves – buys Carmichael mine in Australia

2011
Dahej Port becomes operational

2012
Reaches 4,620 MW at Mundra Power Plant

MMT: Million Metric Tons

AJIT SOLANKI

“*Gautam*bhai *believed that foodgrain storage would be a big opportunity in the future and stayed the course, despite a three-year delay in allotment*

—PRANAV ADANI
Managing director, Adani Wilmar

take calculated risks made up the rest. In the absence of any policy that encouraged private participation in rail building and limitations of the state government in influencing the Central government-owned Indian Railways, Adani took it upon himself to push the envelope. Even as negotiations were on with the Railway Board, the company went on acquiring land between Mundra and Adipur, the nearest point where the national railway network operated, and laid down 65 km of tracks. “It was a risky move but one that paid off. If I had to wait for the entire approval to come through, it would have taken years,” says Adani. That is one trait, according to Mahadevia, that separates Adani from the rest of the pack. “No other entrepreneur would have taken such a gambit, but Gautam*bhai* knew that if he had to get the port business going, he could not have waited for the government to lay down the railway line. While most of us are aware of the concept of money value of time, there are only few who can comprehend its essence,” he adds. In fact, it was only after the then-Union railway minister Nitish Kumar inaugurated the 65-km rail link that a formal agreement was inked between the group and Indian Railways.

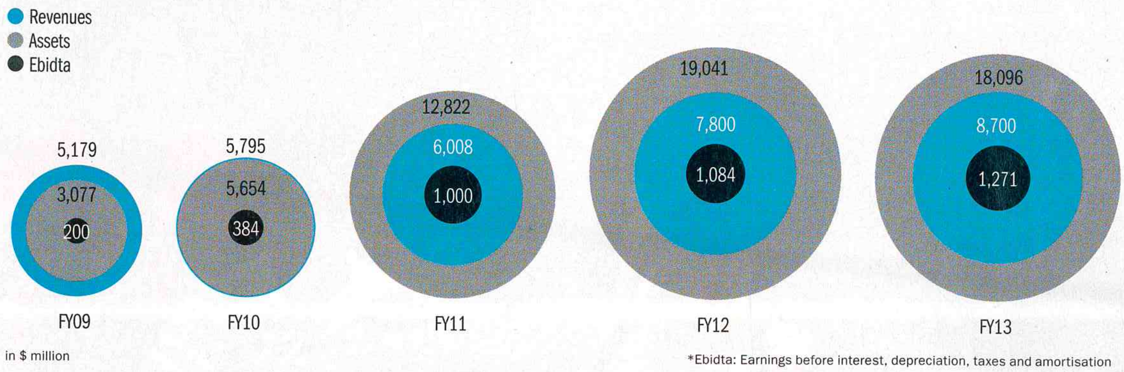
In a way, Adani’s efforts created a model for the government to encourage private-public-partnerships allowing ports to connect to the national railway grid. Today, the link has meant that exporters do not have to send their consignments all the way to Mumbai as Mundra is 400 km closer from North India. In 2007, after building scale in the business, the ports business went public. Over FY07-FY12, the port has cornered a decent market share and clocked a healthy volume growth of 26% against 7% for the sector.

That Adani wanted to create India’s first truly integrated energy conglomerate was evident when in 2006 the group decided to enter the power generation business. “We were already the largest importer of coal — supplying over 50% of the country’s imported coal needs — and operated the country’s largest private port with the world’s largest import coal terminal. The synergy allowed us to scale up rapidly and capitalise on the opportunity, despite having no expertise in power generation,” says Adani. But what really propelled the group was the fact that Mundra had already developed into a full-fledged special economic zone (SEZ) and it needed to ensure assured power supply to the units operating in the zone. Although Gujarat is a power-surplus state, depending blindly on the state grid would have been foolhardy. Today, with 4,620 MW under its belt, Mundra is the largest private single location coal-based power plant in the world.

The power business brought out yet another interesting facet of Adani’s character to the fore: his ability to think out of the box. Firstly, unlike other private players, who were late to realise the Chinese advantage in the power business, Adani had very early in the cycle placed orders in China for boiler-turbine-generators. As a result, he could source the equipment much faster and at a cheaper rate than his rivals. Secondly, when the group lost out to Tata Power for building the Mundra ultra mega power project (UMPP), instead of sulking, Adani convinced his new neighbour to avail of

Stepping on the growth pedal

The increase in the group's asset base has been accompanied by a equally steep rise in debt



his dedicated coal handling terminal to feed the UMPP. Lastly, Adani took on the challenge of commissioning the country's biggest transmission line — 500KV HVDC (high voltage direct current), traversing around 1,000 km through three states, Gujarat, Rajasthan and Haryana. "Gautam*bhai* did not restrain himself by thinking transmission was a state subject. He can stretch his own limits if he wants to make a project click," points out Mahadevia.

Between 2009 and 2012, the group also marked its entry into the mining business. In 2010, it made the largest acquisition ever by an Indian company in Australia, when it bought Carmichael coal mines, thus supplementing its coal mining business spread across Indonesia and India. This was followed by the acquisition of Abbot Point coal terminal in Australia and now, plans are afoot to set up rail lines to ferry the coal to the port. But while the rise of the new generation entrepreneur has become mesmerising, the controversies around the Adani group have been equally engaging.

IN THE SHADOWS

Though Adani refuses to buy the analogy, many see in him a streak similar to that of Reliance group patriarch, the late Dhirubhai Ambani — both with respect to entrepreneurial zeal and also his influence with the powers-that-be. If Ambani's influence was at the Centre, Adani's allegedly is within his state. His proximity to Gujarat's chief minister Narendra Modi, who is touted to emerge as the BJP's likely prime ministerial candidate in the forthcoming general elections, has always been the talk of the town. Adani sets the record straight. "I have known Modi for the past 25 years, much before he became the chief minister. But he does not directly favour any individual and instead ensures cohesive policies for industries to flourish. In fact, we were on the growth path much before BJP came to power. It was during the tenure of Congress chief minister Chimanbhai Patel that we got approvals for the salt business with Cargill. But today our businesses are not confined to Gujarat; our ports and mining operations are now beyond the state borders."

If Adani is seen as someone who could influence decision making at the policy level, it has also partly to do with the nature of the beast. For example, while major ports come under the Centre's ambit, minor ports are a state subject. As a result, post its victory, the BJP government came out with a white paper on development of ports and a model concession agreement for the development of 10 sites, which also included Mundra. The collaborative approach to policy making is also one of the reasons why unlike other industrialists, right from Birlas and Tatas to SME businessmen, who occasionally vent their spleen on the government, Adani has always been measured in his criticism.

In 2010, the group bought Carmichael coal mines in Australia, the largest ever acquisition by an Indian firm

In recent years, issues involving the group's operations have taken centrestage. More pertinent have been allegations of environmental damage at Mundra. In October 2012, the government had cancelled the 1,840-hectare, multi-product SEZ being developed by Adani, citing violation of various SEZ norms such as not conforming to contiguity norms and violation of the rule requiring the tax-free zone site to be vacant before approval is sought. Even as Adani Ports & SEZ denied any violations and has sought fresh approval from the Centre, the group is battling a raft of public interest litigations (PILs). Some have taken up cudgels on behalf of fisherfolk in the area who allege loss of livelihood. The Gujarat high court also recently served a notice on the company in response to a PIL alleging destruction, bunding, blocking and diversion of more than 14 rivers by it. Adani, however, believes there is more to the issue than what meets the eye. "Let's face facts: wherever there is development, there is bound to be some amount of damage. But it's important that you balance that out. We have been working on the project for the past 12 years but suddenly, over the past two years, you have more than 50 PILs. What do you make of that? While there are some genuine concerns, it's not the case with all. We are continuing with CSR activity in and around the affected area. We are taking every possible step to create self-employment or jobs for the affected. But beyond a point, it is also the responsibility of the government to ensure that its welfare schemes reach the populace."

If the ports business has drawn flak, the power and mining businesses, too, have come under the scanner. Adani Power was barred by the environment ministry from mining one of its key coal reserves that fell within the Tadoba tiger reserve in Maharashtra, forcing the company to rely on imported coal for its Tiroda power project. The group could have chosen to scrap the project; instead, Adani once again took a calculated gamble. For one, the management expects several "currently eligible" 11th Plan projects to get delayed, leading to cancellation of their letters of assurance (LoA) of fuel supply from Coal India (CIL).

Secondly, it expects the Tiroda project to top the list of "projects without LoAs, but one that meets all other eligiblity norms". In other words, Adani is confident that when the Standing Linkage Committee, which decides on coal allocation to power projects, meets in the near future, it will take a favourable view on the project and give it the required coal linkage.

AJIT SOLANKI

"Gautambhai did not restrain himself thinking transmission was a state subject. He can stretch his own limits if he wants to make a project click

—MALAY MAHADEVIA
Director, Adani Ports

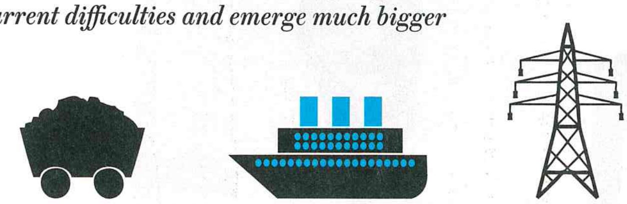
Similarly, the company, which has invested around $860 million in mining projects in Australia, is awaiting environmental clearance for its coal mine and to set up a railway line. The group is looking to replicate its integrated mines, railways and ports model Down Under to ensure coal supply for its power stations back home. The Australian arm has proposed building 300 km of standard gauge line with a capacity to ship 100 MTPA (million tonnes per annum) of coal and connect the Galilee Basin with the port of Abbot Point. The Adani family recently bought the Abbot Point coal terminal to reduce the debt of the listed entity, Adani Ports & SEZ.

LOOKING AT A BRIGHT FUTURE

As things stand, the power business sticks out like a sore thumb among the group's businesses, with debt of over ₹37,000 crore, resulting in a stretched debt/equity ratio. Adani Power incurred a loss of ₹2,295 crore in FY13, primarily due to a higher interest cost of around ₹1,700 crore. The company had initially relied on supply from CIL to tie up its power pur-

Adani's vision 2020

The founder is confident that the group will overcome the current difficulties and emerge much bigger



Core business verticals

RESOURCES	LOGISTICS	ENERGY
Adani Enterprises (Coal Trading)	Adani Ports & Special Economic Zone (Port Cargo Handled)	Adani Power (Power Generation)
46.5 MMT	90.7 MMT	5,980 MW
200 MMT	200 MMT	20,000 MW

2013 / 2020 estimates

chase agreements (PPAs) with Haryana and Gujarat in 2007 and 2008, respectively. It had entered into two PPAs of 1,000 MW each with the Gujarat government, at ₹2.35 per unit and ₹2.89 per unit, and has also signed up with the Haryana government at ₹2.94 per unit for supply of 1,424 MW. Due to domestic unavailability of coal, the company had started procuring coal from its Indonesian mines. But a change in the Indonesian government's policy resulted in a substantial increase in coal prices, forcing Adani to seek a renegotiation of the PPAs. The additional increase in tariffs for Gujarat and Haryana on account of imported coal was ₹1.11 per unit and 64 paise per unit, respectively. The company moved the Central Electricity Regulatory Commission (CERC), which stated that the escalation in price of imported coal on account of Indonesian regulations and non-availability of adequate fuel linkage from CIL for the project was a temporary phenomenon. Hence, it suggested a compensatory tariff for the intervening period. The Haryana government has, however, opposed the ruling even as CIL has again rejected Adani Power's plea for supply of domestic coal on the grounds that the Planning Commission's estimates do not take into account domestic coal supply for imported coal-based power plants.

Not surprisingly, Adani believes the need of the hour is to frame cohesive policies that address such issues. "Even as the country pushed power generation, the pace of rapid growth was not complemented by a concurrent increase in Coal India's output. In such a situation, what can a power player do? We went ahead with our asset creation and substituted part of the requirement with imported coal. That is also the reason why we acquired mines in Indonesia and Australia," he points out. Post the Enron fiasco, investment by private players in the power sector was conspicuous by its absence for over two decades. If the current fuel linkage issues and environment issues continue for long, will it be *déjà vu*? "What no one realises is that we are heading into a scenario where beyond four or five quarters, equity component of most private power projects will be wiped out. Are we saying that banks, which have a chunk of loans on their books, will run the show? Ultimately, is the consumer benefiting? The cost of alternative energy can never match that of conventional power," declares Adani.

He is not wrong. In fact, in its plea to CERC in 2012, Tata Power had pointed out that at current tariff levels for its Mundra project, the entire networth of the company might get wiped out in less than three years. But there is hope on the horizon as the electricity regulator has advised the power ministry to modify the bidding guidelines under the Electricity Act, 2003, and make amendments to the National Electricity Policy and Tariff Policy to enlarge the scope of regulatory intervention.

While CIL is being panned for its inability to feed the gargantuan appetite of mushrooming private sector power plants, the state-owned miner has problems of its own, especially when it comes to environment and bureaucratic delays. Production has stagnated around 431 million tonne (MT) a year for the past three-four years and fresh mining projects are facing land acquisition hurdles and delayed environment clearances. According to Adani, the lack of consensus within the political system and dearth of a comprehensive rehabilitation roadmap that addresses developmental issues in resource-rich regions, are proving a big dampener. "We are getting more reactive with our policies than proactive," he feels.

If the current stalemate continues, rating agency Crisil believes India will be able to add

7 RULES FOR FIRST-GENERATION ENTREPRENEURS

1. Define and then always stay true to your values. These values will determine the legacy of the first-generation entrepreneur

2. Never fear to think big. A first-generation entrepreneur always has to do a lot of catching up. You can never catch up if you think of ways to avoid risk

3. Set higher goals as it helps attract like-minded people who are eager to pull off massive challenges without getting bogged down thinking about risk

4. Invest in relationships without a motive and be grateful about these. A first-generation entrepreneur does not have the benefit of established relationships

5. Have a bias for spending time effectively. If one is not able to give time to nurture a business, it is better to exit as otherwise the business becomes an orphan and eats into "opportunity" time

6. Commit to a "higher" cause so your teams and you can eventually look back and feel you contributed to something greater than just business

7. Last but not the least, you create your own destiny, so take full responsibility for your actions

only 68 GW of capacity during the 12th Five-Year Plan ending FY17, against the targeted 88.5 GW. In fact, the government had twice reduced its capacity-addition estimate during the previous Five-Year Plan and still missed the final target of 62 GW.

Adani, though, is not losing hope and sounds rather charitable when he says, "It is not that the government is not trying. But now, confidence level is quite low and people are keenly awaiting the outcome of the general elections. Once a new government is in place, I believe things will fall in place."

As hopeful as he is about the future, Adani needs to also assuage investor concerns about the sustainability of the group's own power business. For his part, he believes the fears are out of context and is instead looking to invest over $15 billion in the coming years. "All infra projects tend to have highly skewed debt/equity ratio in the early stage of the projects. Remember, had it not been for the leverage, the group would not have created assets from $3 billion to over $25 billion across power, ports and mining in the past decade. Also, at the end of the day, even the promoter has skin in the game."

Also, look at the bigger picture and the difference is quite drastic. For instance, Reliance Power, which had raised over ₹11,700 crore through its IPO in 2008, has till date managed to set up 2,500 MW of operational capacity, whereas Adani Power, which had raised ₹3,000 crore through an IPO a year later, has in place 7,260 MW of operational capacity and is looking to end the year with 9,280 MW. And with promoter holding of over 70%, Adani Power has enough headroom to de-lever its balance sheet when push comes to shove. The management, however, is not looking at offloading any equity stake and is instead eyeing cheaper dollar bonds to substitute high-cost loans.

For now, the odds are high, but Adani is confident of sailing through the storm. "I feel that the next 50 years are very, very crucial for India where you have to rebuild the whole nation. If you are committed enough, there are bound to be enough and more opportunities to grow in infrastructure." Concurring with Adani is his trusted lieutenant, Mahadevia, who declares, "*Darna mana hain* [There's no room for fear]." If that, indeed, is the spirit within the organisation, Adani certainly need not worry: he has won half the battle already OB