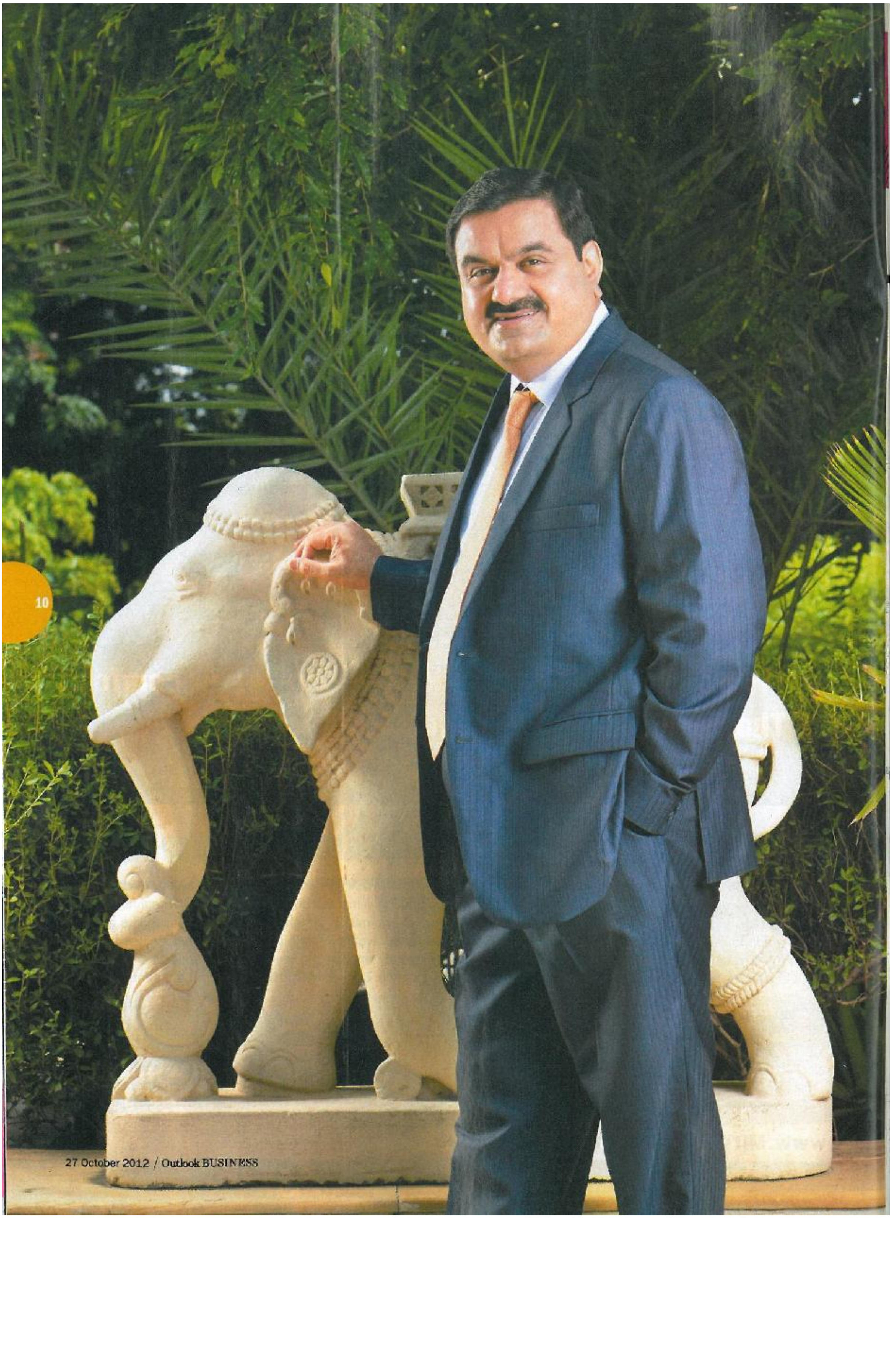


OUTLOOK
BUSINESS
Think beyond.
Stay ahead.

| GAUTAM S ADANI, *CHAIRMAN, ADANI GROUP* |

"Think big and make allowances for mistakes"

THE ADANI GROUP FOUNDER ON TAKING THE PATH LESS TRAVELLED IN CREATING AN INFRASTRUCTURE CONGLOMERATE

Over the years I have come to realise that being a first-generation entrepreneur does present a unique advantage: there is no legacy to follow and there is nothing to prove. I ventured into uncharted waters with no expectations to fulfil, except those of my own. And my expectations have never been about money. There are many of things that, if you ask me, are more essential to happiness than money. Money will take you only to a certain level, beyond which it will no longer hold any value. People who achieve extraordinary things are not driven by net worth but by a deep-rooted desire to make a difference. Also, I believe that influences during childhood play a significant role in shaping an individual's principles and values. For me, as a child, the most influential figures in my life, undoubtedly, were my parents, and the most influential events were my visits to Kandla port and cement plant as a schoolboy. These impressions have consciously or sub-consciously influenced my thinking.

In the 1960s my father was involved in what today is known as "forward trades". But back then such trades in commodities were just oral commitments based on mutual trust between two parties. However, I have never seen these trades fail — this was my first lesson in trust and commitment. Although my father lacked a formal education, he was good at trades and never hesitated to trust his instinct. A trait, that I believe, runs in my genes as well.

My father was into a business that had no future, while my eldest brother was into the wholesale cloth merchant business, which I did not want to enter as I did not see myself making any significant contribution. Incidentally, around the same time people were entering the diamond business and that brought me to Mumbai, where I stayed with my cousin who was also into diamond trading. I tried to pursue a degree from KPB Hinduja College of Commerce. But it proved to be too arduous a task to wake up early mornings to attend college and then go back to Zaveri Bazaar to work. Things came to such a pass that I used to doze off in the train and perennially miss my station on the way back home. That's when I decided that I could no longer pursue a degree — a decision that I still ruminate upon, but certainly don't regret taking. My belief is that the early practical lessons taught me more than what I would have gained studying in college. As a child I was an introvert and more tuned to learning by observation and hands-on experience rather than in formal class room settings. Though I believe in the importance of education, I am certain that I would have still been an entrepreneur had I continued my studies, though perhaps a more conservative one. Sometimes, being too educated tends to make an individual more risk-averse — and that is something an entrepreneur cannot afford.

After dropping out of college, I plunged full time into diamond trading — learning to sort the stones and also valuing them. In less than three years I had started my own brokerage outfit. I still remember my first trade with a Japanese buyer, which took me four days to seal, fetched me a commission of ₹10,000. That deal gave me the confidence that I could do business on my own, which I did for the next year two years.

THE JOURNEY BEGINS...

In 1982, I went back to Ahmedabad to join my brother who had acquired a small poly vinyl chloride (PVC) film manufacturing unit. This was yet another learning phase. Against a monthly requirement of 10 MT of PVC resin we were getting a quota of only 2 MT. It was more profitable to sell the quota in the open market to than manufacture PVC films.

In 1985, however, the government unveiled a new export-import policy. As a result, most raw materials could be imported under the open general licence. I recognised this opportunity and ventured into the import business by sourcing materials, mostly polymers, for small scale units. But the issue here was that the consignment would arrive about three to four months after the letter of credit was opened and this was a time when polymer prices were going through the roof. While many traders in Mumbai and Delhi took advantage of this opportunity by not fulfilling their commitments and diverting material to customers who were willing to pay a higher price, I never short-changed my customers, even if it meant accepting a margin many times lower than I would have made otherwise. The trust I built with my clients helped me set up a full-fledged trading house, Adani Exports.

Till 1994 we were primarily into trading and around this time we also went public. But the flip side to being listed was the concern in the financial fraternity that as a company we did not own any assets and, therefore, was seen as a risky investment.

Though we did foray into the infrastructure space, our entry was more providential than by design. In 1994, Cargill USA approached us 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.

PHOTO COURTESY: ADANI GROUP

BROTHERS IN ARMS: (L to R) Vasant, Vinod, Mahasukh, Gautam and Rajesh Adani

BREAKING GROUND

While the partnership did not proceed, we were still left with the full land adjacent to the coast as well as permission to build a captive jetty for the export of salt. 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. Once elected, the BJP government came out with a formal port policy that declared its intent to develop 10 full-fledged commercial ports along the state coastline. We were well positioned as we already had the permission to develop the captive jetty at Mundra. Once the ports policy was in the place, the government chose us as its partner to build a

“As traders, the biggest lesson for us was that infrastructure projects cannot be funded with short-term money

full-fledged commercial port in Mundra. It was an interesting phase as 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. Had it not been for IFCI and more importantly, KD Agarwal, the then-CMD and earlier the chief general manager of IFCI's Ahmedabad branch, we would not have been able to build Mundra port. Since those days banks and institutions had no idea how to appraise a port project, it was difficult to get funding. But it was Agarwal who said, "Mr Adani, I don't know anything about all these papers, appraisals etc. I am just trusting you." IFCI sanctioned a ₹200 crore loan, while we chipped in with our share of ₹150 crore. While it is very easy to prove yourself on paper and justify numbers, at the end of the day it's all about a promoter's integrity and his ability to execute and, for us, that mattered a lot.

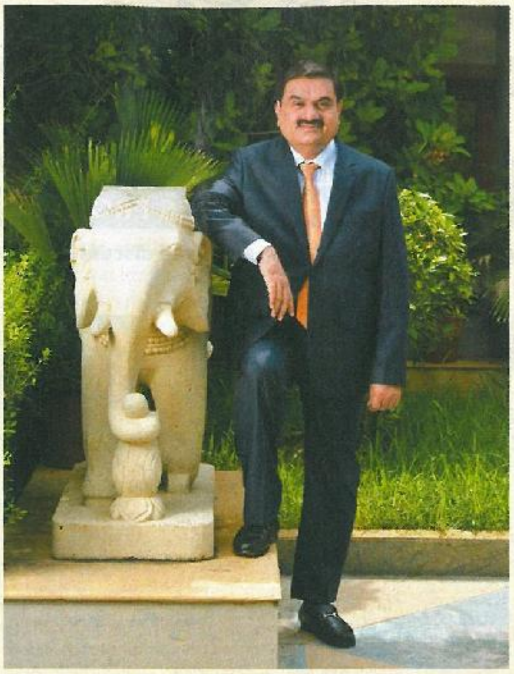
My family has always supported me and never said that we should not take huge risks, primarily because we come from a business background. Though I may be making an outsized bet, a million calculations are going on in my mind — I don't shoot in the dark. But having said that, our foray into ports also was 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 yet throwing up cash. That was a big learning: since infra projects have long-gestation periods, they cannot be funded with short-term money. In 2003, we sold our container quayline to P&O Ports for $195 million and became debt free. In 2007, we went public but only after building some scale in the business. Today, Mundra is one of the most integrated multipurpose and multi-cargo commercial ports in the world.

As we were building the Mundra port, we realised that we were bottle-necked, given the lack of connectivity to a main evacuation rail hub. We needed to construct a 65 km rail link — another area we knew nothing about. We had no government guidelines, no policies and no BOT models. We still decided to go ahead and set up the rail link, knowing the only way to make our port feasible was to build this link. Not only was it our first rail job, it was also was the first private rail link of its type set up in the country.

In many ways Mundra proved to be our *karma bhoomi*. The entire marshy land, which was originally allocated for salt works, presented a huge opportunity when the special economic zone (SEZ) policy was announced in 2005. Today, Mundra houses the country's biggest multi-product SEZ.

Following ports, our decision in 2006 to enter the power generation business was also because we enjoyed a huge leverage. 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. Today, Mundra has the largest private single location coal-based power plant in the world, built out in an unmatched record time of four years, with a current capacity of 4,620 MW. Now, our target is to touch 20,000 MW by 2020.

With ports and power under our belt, and being the number one in both these areas, the time had come to further integrate our operations. The period 2009 to 2012 marked our entry into the mining business. We were already a company with significant investments in assets that involve a complex integrated supply networks. We now needed to have greater control over our supply chain. This is what led us to make the largest acquisition ever, by an Indian company, in Australia. We added the Carmichael coal mines to our asset base to augment our coal mines in Indonesia and India. This was followed by the acquisition of Abbot Point port in Australia and is now being followed by setting up the rail lines to bring the coal mined over 400 km away to the port. What will this scale of over $10 billion investment in asset acquisitions allow us to do? It will help us unlock the enormous potential of what were seen as unviable resources. At peak production of 100 MMTPA, this will be the largest operating coal mine in Australia, as well as one of the largest in the world. Our vision is to be a globally admired integrated infrastructure company by 2020 and every step in our journey connecting ports to power to mining is a step towards achieving that vision.



BEYOND AND YONDER

By virtue of being in the infrastructure space, government policies make a huge difference. But there is a huge misconception that my rise is an outcome of my closeness to Gujarat chief minister Narendra Modi. Let me set the record straight on that. I have known Modi for the past 25 years, much before he became the chief minister. He has only been an enabler for the entire industry in general by facilitating economic growth through policies. 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. At the end of the day it doesn't matter who you are and under which government you are running your business; what ultimately matters is your unwavering commitment to the final cause.

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My advice to first-generation entrepreneurs would broadly cover five points. One, define and stay true to your values. I have been able to exploit my own and my people's abilities because of my intense belief in my values of courage, trust and commitment. For instance, Malay Mahadevia is a dentist by profession, but today he is running the ports business. Sometimes, placing faith in ordinary people can give you extraordinary results. Two, spend time effectively. If you are not able to give time to nurture a business, it's better to exit. We invested in businesses such as retail and information technology but since they were not core to us, we cut our losses and exited in less than three years. Three, think big and make allowances for mistakes — but don't repeat them. Keep trying for success. It may come in a day, month, year or 10 years, but you should not get demoralised if it eludes you for a while. Four, incubate relationships without expecting returns on every relationship built. And five, commit to a "higher" agenda so you can feel you have contributed to a cause greater than just business. Today, our foundation runs Adani Vidya Mandir, which offers free teaching to children from families whose annual income is less than ₹1 lakh. By doing so you are not just lifting a child from poverty but also giving him or her a chance to prove useful to the society. And if I as a child was deeply inspired by the visit to Kandla port, I think my job is done if even a handful of my students make it big in life.

—AS TOLD TO V KESHAVDEV