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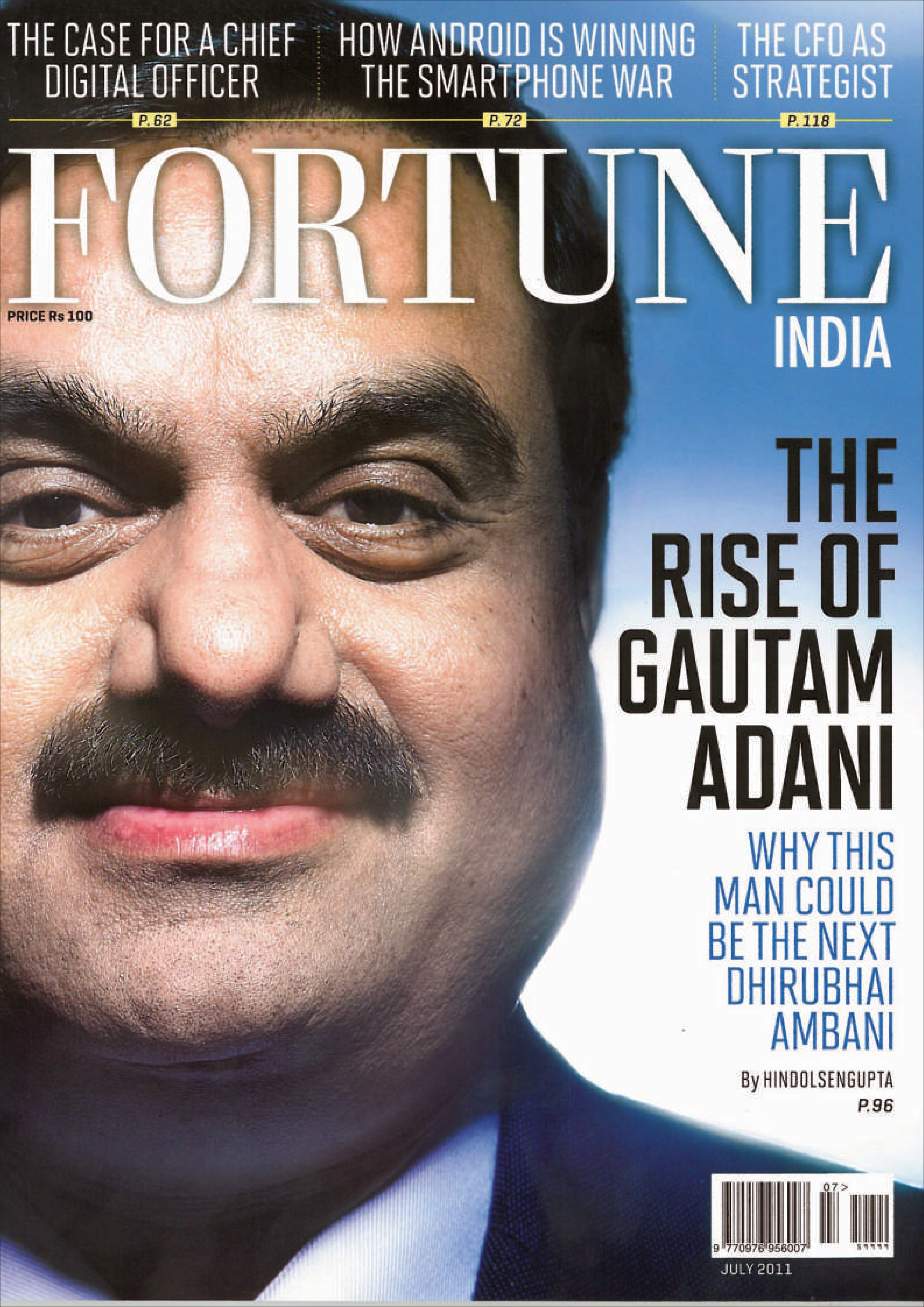

THE RISE OF GAUTAM ADANI

WHY THIS MAN COULD BE THE NEXT DHIRUBHAI AMBANI

By HINDOLSENGUPTA

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ADANI

Gujarat's Next Big Thing

GLOBAL ACQUISITIONS WORTH OVER $6 BILLION IN THE LAST YEAR, INDIA'S LARGEST PRIVATE PORT, RAPIDLY GROWING AMBITIONS IN ENERGY AND AGRICULTURE ALL POINT TO GAUTAM ADANI'S HUNGER FOR SCALE. COULD HE BE ANOTHER DHIRUBHAI AMBANI?

By Hindol Sengupta
Photographs by Bandeep Singh

Everyone around Gautam Adani, it appears, has a story about him. Twenty-five years ago, his commodity trading business was worth around Rs 100 crore. A young trader made a wrong call in coffee futures that cost Adani Rs 6 crore. "The man went to Gautambhai and offered to quit," says Saurabh Dixit, using the common Gujarati honorific 'bhai'. Dixit has been Adani's go-to guy for human resources for over two decades, and trains young executives at the Adani Group these days. "Adani tore up the resignation and proffered some wisdom instead. He said: 'You made a mistake; I lost money'," says Dixit. "There is learning here. Why should I give that benefit to your next employer? Stay with us, and use what you've learned to make more money." The next year, the trader raked in nearly Rs 12 crore in profits.

There's another story from the early '80s, when Adani had just dropped out of college and joined his father's factory, which made plastic film used to wrap textiles. One of his biggest customers was a man who was then swiftly approaching cult status, Dhirubhai Ambani.

"Gautambhai knew a purchasing officer at Reliance and every morning he would stand outside his house, when he was about to leave for his office. This man always had a sense of what the quotes for plastic film would be," says Pankaj Mudholkar, an old chum of Adani's, who heads Aakriti Promotions and Media, an advertising and public relations firm. "Gautambhai would then consistently underbid his rivals to get Reliance's orders."

Adani, now 49, has come a long way. Still relatively unknown outside Gujarat, he periodically pops up as one of India's top 10 billionaires in listings of the wealthy, alongside heavyweights such as Mukesh Ambani and Azim Premji. He's got all the trappings: a fleet of BMWs, two jets, a turboprop aircraft, and a flaming red Ferrari convertible recently bought for son Karan. His Rs 26,827 crore business empire stretches from commodities to infrastructure to energy to agriculture. In sheer size, it's among India's largest groups, rubbing shoulders with family-run corporations with long-standing legacies such as the Godrejs, Lalbhais, Mahindras, and the Goenkas.

In Ahmedabad, his base, Adani is still seen as an outsider by the business class, some of whom are envious of his dizzying rise. It's a notion his wife Priti—they have been married 25 years, and she runs the group's corporate social responsibility programme—vehemently contests: "I don't see any class system at play." The city's everyday people, who venerate

"Adani is a clear case of vertical integration in infrastructure."

—Bakul Dholakia, former director of the Indian Institute of Management, Ahmedabad

Left: Devang Desai, chief financial officer, Adani Enterprises; Right: Malay Mahadevia, director, Adani Group, in charge of growing the Mundra Port and SEZ.

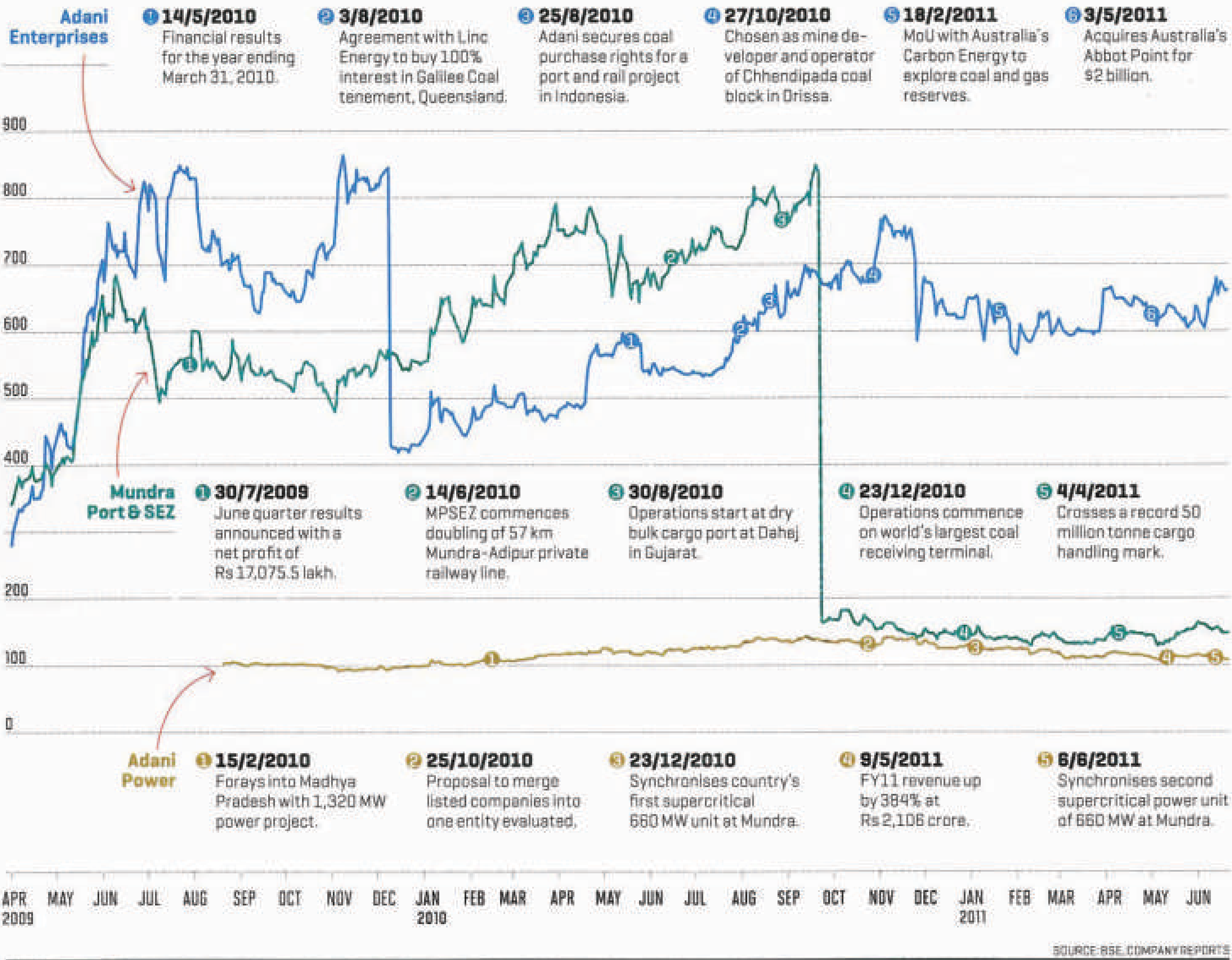
businessmen, think of him as a folk hero, the local boy who made it huge in living memory. From taxi-drivers to sweet-shop owners, all know who Adani is and where his offices are—in the older part of the city. Many see Adani as the other big businessman to come out of Gujarat, the next Dhirubhai.

Adani met Dhirubhai once, at Anand Jain's (a senior Reliance hand) son's wedding in Mumbai, a few years before Dhirubhai died. It was an introduction to the legend rather than a full-blown business discussion. Like Dhirubhai, Adani's business is about scale and big bets, giving rise to comparisons.

The numbers discussed in Adani's offices are audacious. In August last year, Adani bought a coal mine from Linc Energy, an Australian energy company, for $2.7 billion (Rs 12,147 crore). The mine, in the Galilee Basin in Queensland, Australia, has mineable reserves of 7.8 billion tonnes, and can produce 60 million tonnes every year. That same year, Adani Enterprises announced that it would invest $1.6 billion in an Indonesian port and railway project to source coal from inaccessible coal resources in South Sumatra. The project gives the Adani Group coal purchase rights. The infrastructure—including owning, building, and operating a 250 kilometre railway line—will be used to transport 35 million tonnes of coal per annum. Then, in May this year, he bought Abbot Point, a port in Queensland, Australia, for $2 billion.

He's got a finger in several pies at home too. Adani has built India's largest edible oil refinery—a capacity of 10,105 tonnes per day—and his edible oil brand, Fortune, is the largest selling in India. The company is also building its largest grain silos (a total capacity of 600,000 metric tonnes), and Adani has already inked a 20-year contract with the Food Corporation of India to store grains. He wants to buy farmland overseas, since industrial farming is not allowed in India, and 20 Capesize ships with a total carrying capacity

The Highs and Lows



of 34 lakh dead weight tonnes or DWT (the tonnage of his existing ships is 3.4 lakh DWT). Plans are also underway to expand the cargo handling capacity of his port in Mundra on Gujarat's northern shore—it's India's largest privately owned port—from 52 million tonnes annually to 200 million tonnes, while raising the capacity of Adani Power from 2,640 megawatts (MW) to 20,000 MW from seven locations.

The expansion should swell the group's size to Rs 1 lakh crore and Adani wants to get there by 2020. (Adani considers 20 his lucky number.) To achieve this goal, by the end of July Adani will have merged two of his listed companies, Adani Power, and the Mundra Port and Special Economic Zone (MPSEZ), into Adani Enterprises (which includes all the trading business including coal, power, and all the agri businesses). These three companies contribute roughly a third of the group's total sales, with Adani Enterprises in the lead.

Part of the logic is to create a bigger balance sheet that'll support the capital intensive push and, equally, de-leverage the group. Analysts have begun asking awkward questions about the Adani Group's skewed debt to equity ratio of 1.7:1. The group is sitting on nearly Rs 29,713 crore of debt.

Last month, in a report prepared by New Delhi-based

Left to Right: Priti Adani, CSR head, Adani Group; Karan Adani, Gautam and Priti's son; Gautam Adani (seated); Rajesh Adani, director, Adani Group; and Pranav Adani, director, agro, Adani Enterprises

brokerage, SMC Securities, Adani Power was ranked as the company with the second-highest value of pledged promoter shares, after Tata Consultancy Services (TCS). It has 53.6% of promoters' stake (or 39.4% of all shares) pledged to financiers as of June this year.

"In the case of cash crunch scenarios, there is a big risk of margin calls on these companies by the financiers," says the report. In a margin call, either the promoter issues more shares to the financiers, or they sell in the open market. While the report says many big companies in the list such as TCS, Hero Honda, Tata Motors, and Tata Power, have significant pledges, they are "fundamentally strong enough to withstand any margin call scenarios". There is no mention of Adani Power.

Adani's managers, including chief financial officer Devang Desai, say they are aware of the debt bogey, but are hoping that the group leverage will reduce to one in a few years, partly aided by the merger. MPSEZ, for example, is totally debt free.

It's also become increasingly difficult to please Dalal Street. For instance, when results of the quarter ending Dec. 31, 2010, were announced, MPSEZ's profits rose to Rs 228.5 crore from Rs 163.2 crore over the same period the previous fiscal, but the stock actually fell 0.37% on the Bombay Stock Exchange. Adani Enterprises' stock is down 11% from its 52-week high of Rs 785, and MPSEZ's stock stayed flat after a five-way split that occurred in September 2010.

"The problem with the Adanis is that they believe that growth is life. Coupled with the fact that the Indian infrastructure sector has been more noise and less delivery due to a whole host of roadblocks, that means there has been a perceptible lack of interest," says Jagannadham Thunuguntla, strategist and head of research at SMC Global Securities. "There is a fear that as long as the going is good, it is all fine, but when times are bad, there can be a major cash crunch. There are also concerns of management bandwidth when there is such rapid expansion in several sectors."

Other market analysts are less concerned. Devang Mehta, vice president and head of equity sales at Anand Rathi, a Mumbai brokerage, points out that the aim of the merger is to attract a new class of investors—the larger player, who is interested in the overall Adani story, who wants to play at the level where the family has 78.32% of Adani Enterprises, and get the benefit of that strong story.

"The Adani Group understands that as separate entities these companies are coming to a saturation point in investor interest. Adani's timing of playing the markets has been just right and he knows what will fetch value when. The consolidation is coming at the right time," says Mehta.

Bakul Dholakia, former director of the Indian Institute of Management, Ahmedabad, who is setting up a medical college and an institute for infrastructure management for the Adani Group, says Gautam Adani not only knows how to think scale but also when to enter and exit a business.

Last year, he shut down a BPO company he had started in 2001 and in 2007 sold Adani Retail to Reliance. To hear Adani describe it, he didn't exit the businesses because they were losing money, but because they were eating into time that could be better used elsewhere. "We realised we needed better management bandwidth to go national," says Adani about the 54-store chain. "To play in retail, one had to be a national player. Just Gujarat was no good."

For Dholakia, this laser-like focus is pure Adani: "Gautam's biggest strength is always asking how to cut the crap. If Reliance Industries is a clear case of vertical integration in

> ***"Adani's timing of playing the markets is just right. He knows what will fetch value when."***
>
> —Devang Mehta, vice president and head of equity sales, Anand Rathi

petrochemicals, Adani is a clear case of vertical integration in infrastructure."

ADANI'S BOSTON UNIVERSITY-EDUCATED nephew Pranav says his uncle relies on "a Gujarati's *bania buddhi* (trader mindset) to do business: no spreadsheets, no PowerPoints, just instinct". Adani knows the names of his top 500 managers, and he is extremely hands on.

On deals, for example, Adani has the final say. When they were negotiating for Abbot Point, his managers quoted a figure Adani knew was low, so he intervened and made the final offer. He'd have lost the bid otherwise—the number suggested by his managers was nearly 20% lower. "I have a trader's instinct," says Adani.

He is also a man of few words. He prefers answering in monosyllables or short, snappy sentences. His wife says it's always been an effort to get him to say much. The first time they met before their arranged marriage, he barely spoke. "He is a far better listener."

Fittingly, his strategy takes few words to explain: Do business that can ride on the government's agenda. He interprets the country's three priorities as infrastructure, energy, and food. "Our focus is building the nation," says Unmesh Abhyankar, a former merchant navy officer and now chief operating officer at MPSEZ. That, and, of course, building everything supersize.

"The phrase 'betting on the India story' is used loosely these days, but if you look at Gautam Adani this is exactly what he is doing," says SMC's Thunuguntla. "There is that classic demand-supply play of the Gujarati businessman but this is on a different scale. Long before others, Adani was able to identify where the big gaps in demand and supply would be in a growing India, and he has worked strategically with the government to fill those gaps."

Adani figured this out early. In 1985, then Prime Minister Rajiv Gandhi put 150 items, including polyvinyl chloride (PVC), in the open general licence category to further liberalise imports. At the time, PVC was the main raw material at Adani's plastic film manufacturing unit. The only manufacturer was the Indian Petrochemicals Corporation (later acquired by Reliance) which supplied 2 tonnes a month against the 20 tonnes needed. So the rest was imported.

As journalist Kamlendra Kanwar writes in his book, *Icons of Gujarat Industry*, "Gautam Adani was quick to grasp that there was money to be made as the domestic price was higher than the landed price of imported plastic. Gautam shrewdly entered into a deal with the Gujarat State Export Corporation, which authorised him to import PVC on its behalf. Even after paying a service charge of 2.5% to 3% to the corporation, Adani was able to earn margins of 5% to 6% by selling imported PVC in the Indian market."

At times, fingers were pointed at his tactics, such as getting import quotas by showing fictitious exports, allegedly with the help of top bureaucrats, in the late 1980s and early 1990s, but nothing has been conclusively proven. Other controversies have cropped up. In February last year, brother Rajesh Adani, a director in the group, was arrested by the Central Bureau of Investigation for evasion of customs duty of around Rs 80 lakh, but this too was never proved. Also last year, the group ran foul of environmentalists over a proposed mine near the Tadoba Andheri Tiger Reserve in Maharashtra. "The mine is too close to the tiger reserve. It will never be cleared as long as I am environment minister," says Jairam Ramesh, minister for environment and forests. Although the mine proposal is still blocked, Adani takes it in his stride. "I fall asleep within three minutes every night," he says.

Apart from these hiccups, an Ahmedabad businessman says that Gautam Adani has been on the right side of every local government from Chimanbhai Patel's administration (Congress and Janata Dal: 1973-1974 and 1990-94) to Keshubhai Patel's (Bharatiya Janata Party: March to October 1995, and then 1998-2001) to Narendra Modi's (BJP: 2001 to the present). For example, the Mundra Port, the showpiece of Adani's empire, was possible because Adani was able to make privatisation of ports part of the BJP's election manifesto in the 1995 elections. "His real partnership has been with Modi—both of them have almost risen together in the last decade," adds the businessman.

One of the more public anecdotes of his close ties with Modi has to do with Adani's bid for an Indian Premier League (IPL) cricket team, apparently at Modi's behest. He lost out to the Sahara Group and another consortium for the two franchises up for grabs. Adani says he's no longer interested in IPL. "There is more glamour than anything else in it now. I like cricket, but I really wanted to buy a team because I thought Ahmedabad deserved its own."

In the rapidly altering landscape of Indian politics, isn't being too closely associated with one party a business risk? Adani doesn't think so. "I firmly believe that the business of infrastructure cannot be done without the blessings of the government." A few days before he met *Fortune India*, Adani spent half a day with Bihar chief minister Nitish Kumar, explaining his plans for the state.

> ***"The business of infrastructure cannot be done without the blessings of the government"***
>
> *—Gautam Adani, executive chairman and founder, Adani Group*

In the late '90s, he met a local judge to convince him that a private railway line to the Mundra port was needed. Adani's efforts at acquiring land for the line was mired in litigation. "Maybe it was wrong to approach him, but I thought it was of national importance to be able to move goods from the port on time. A government railway line could take years to build," says Adani. The judge was convinced, and Adani built his 64 km railway line in just 18 months.

MUNDRA WAS BUILT ON similar chutzpah. It was a barren flat-land 400 kilometres north of Ahmedabad, where, in 1991, Adani partnered U.S. commodities giant Cargill to farm salt. The salt mounds are still visible though Cargill walked away from the deal; it wanted a majority stake which Adani was reluctant to give. Adani was left with 7,000 acres of land, but no business.

That's when he had his epiphany. He already planned to build a jetty to move goods. Why not build a port instead, especially since the waters were deep enough to accommodate big ships? For more than four years, Adani says he rose at 4 a.m. every other day and drove several hours on bumpy roads to reach Mundra from Ahmedabad, worked at the port's site, left late, and drove back to Ahmedabad in time for a shower, breakfast, and office. By the time the port was completed in 2000, he had spent Rs 3,700 crore.

It signalled his arrival as an industrialist. Ahmedabad old-timers say that Adani was charting a different trajectory from his brothers. (He is the fourth of five brothers.) Adani admits leaving the family business to give his brothers space.

Today, Mundra looks like a cheerful seaside resort. There's a supermarket, a town hall, a school and college, a temporary screen where movies are shown over weekends (a multiplex is on its way), a kitschy temple, and white seagulls. All around are low-rise houses, painted in summer colours—from a cheerful yellow to ochre on a base of Mediterranean white.

Inside the port, one feels dwarfed before the enormity of the ships. This, as MPSEZ's general manager, corporate affairs, Niranjan Engineer, points out, could be the site of an old Amitabh Bachchan film, where the hero fights the dock's roughnecks. The setting is larger than life.

To understand Mundra is to understand Adani. He built multiple berths (eight for dry cargo, four for container traffic, and three for bulk coal handling); the world's largest integrated coal handling terminal (60 million tonnes annually) built at an additional Rs 2,000 crore; a 32,000 acre SEZ for industry where the Tatas already have a power plant going; and an electricity plant to power it all.

Mundra is India's most efficient port, with a turnaround time (time between the entry and offloading of a ship in port) averaging 2.1 days. According to data from the Indian Ports Association, its nearest competitor is Kandla, at five days. Mundra also has one of the lowest pre-berthing times or time taken for the cargo ship to come into the port, at an average of 0.23 days: Kandla's average is 22.8, Kolkata 20.4, and Haldia 107.5.

Adani's business empire has coal from his mines carried by ships that he owns, docking at his own port, and feeding his own power plants. Dholakia says this makes great business sense. "No power project is built without power purchase agreements (PPAs), and in India most of these are with state governments." The PPA specifies a price at which the state buys power. But there are multiple variables that determine a company's profitability—cost of raw material (coal in thermal plants), cost of transport, cost of logistics, etc. "The Adanis have the mines, the ships, the port, the railway lines. Essentially, they control the entire chain. What more could you ask for?" says Dholakia. "This control at every stage has an overall price advantage of anything between 10% and 30%, which makes a mega business like infrastructure very valuable."

But ultimately, Mundra is even more. It's the centrepiece of Adani's trading business, much of which is coal. His mines (Orissa, Chhattisgarh, Indonesia, and Australia) have reserves of nearly 13.55 billion tonnes; even when he produces 20,000 MW of power, he will need only a part of that. He will sell the rest, as he is doing now. Indeed, as Devang Desai says, the Adanis may spin the coal business into a separate company after this round of mergers.

What this means is that Adani is taking a big bet on power. "If you look at the power deficit, it's not rocket science," says Desai. The peak power shortfall in the country was 10.8% last summer. Distribution losses average over 30%. The Central Electricity Authority, the key advisory to the power ministry, has set a target of 100,000 MW of additional power generation between 2012 and 2017. One of the most critical bottlenecks is coal shortage, with the gap between demand and supply likely to reach 83 million tonnes by 2012 and 200 million tonnes by 2017. The Adani Group, which accounts for almost half of all Indian coal imports, sees a great opportunity, especially since thermal power accounts for more than 60% of India's electricity and is likely to remain the most critical power source.

MANY OF ADANI'S plans are tied to the Indian economy. His

Mundra Port is India's largest private port and handled 52 million tonnes of cargo in 2010.

pithy reading is that the country's young population will continue to drive a consumption-led economy that will ultimately benefit companies such as his.

The markets are more circumspect, especially in the context of Adani Power. Says Thunuguntla: "Debt is like fire— you can cook with it and you can burn with it. Unlike other companies, Adani Power does not have a history, so we don't know how stable or unstable it is. So I can't club it with companies with a history of 40 years or 50 years. The Adanis have been cooking well with fire, but if the economy turns, the story for such a hyper-growth group might change."

Even when Mundra was being built the company faced a major cash crunch. "We used short-term money in long-term projects and that was a problem," says Adani, who calls it one of his toughest times.

But CFO Desai says this time will be different. "India's power demand is so high that there is little chance of going wrong. We have control of the entire process."

Like his giant concrete structures, there's something indestructible about Adani. In 1997, he was abducted; his BMW was ambushed in Ahmedabad, he was blindfolded and whisked away in a Maruti 800. A ransom was demanded and paid, and Adani was released after 18 hours in captivity. A former top Mumbai cop associated with the investigation says Adani was calm during the ordeal; Adani says he spent most of his time asleep on a sofa in the house where he was kept hostage. "He proved he had nerves of steel at a time when most industrialists were paranoid," says the cop.

Those nerves of steel were evident on 26/11, when he was holed up inside Mumbai's Taj Mahal Hotel, even as a fire-fight raged between commandos and terrorists. He was busy updating his childhood friend Malay Mahadevia on his whereabouts. "I kept saying, let us take one of our planes and come to Mumbai," says Mahadevia, "and he kept saying, 'Even if you come, what can you do? I am safe for now, and the police and army are fighting the terrorists. Just stay calm and focus on the big picture'."

Ultimately, that's what makes Adani tick.