

Rise and rise of dhirubhai



**ASSIGN
BUSTER**

Dhirubhai once said: ' Our dreams have to be bigger, our ambitions higher, our commitment deeper and our efforts greater. This is my dream for Reliance. In fact, this is my dream for India'. Indeed Dhirubhai has been successful in bringing his dream to reality. From a humble beginning, Dhirubhai Ambani was successfully able to build up the largest Business conglomerate in India in a span of just 25 years. Today, the turnover of Reliance Industries forms 3% of the entire GDP.

This tremendous growth in such a small time is the result of the large amount of hard work, dedication and excellence that Dhirubhai Ambani brought in to the culture of Reliance Industries. As they say, there are two sides of the coin. While there is no doubt that Dhirubhai Ambani was a highly intelligent and dedicated manager, he was not perfect, in the right sense. For a long time Dhirubhai's ethics have been a matter of debate. While some consider him as a shrewd businessman, the others don't approve of certain things he did.

History

Dhirajlal Hirachand Ambani was born on 28th December 1932, in Chorwad Gujarat into a Modh family of moderate means. He was the second son of a school teacher. Right from childhood Dhirubhai was precocious and highly intelligent. He was highly impatient of the oppressive grinding mill of the school classroom. Chose work that used his physical ability to the maximum rather than cramming school lessons.

At the age of 16, Dhirubhai moved to Aden, Yemen. He worked there as a clerk for A. Besse & Co. For two years. Later he was promoted to manage the

company's oil filling station at the port of Aden, when A. Besse became the distributors for Shell.

Ten years later, Dhirubhai returned to India and started a business Reliance Commercial Corporation with a capital of Rs. 15000. 00. The primary business of Reliance Commercial Corporation was import polyester yarn and export spices. The business was setup in partnership with Chambaklal Damani, his second cousin who was also there with him in Aden. The first office of Reliance Commercial Corporation was set up in Narsinathan Street at Masjid Bunder. It was a 350 sq. Ft room with a telephone, one table and three chairs. Initially they had two assistants to help them in their business. In 1965, Chambaklal Damani and Dhirubhai Ambani ended their partnership and Dhirubhai started on his own.

It is believed that both had different temperament and a different take on business. While Mr. Damani was a conscious trader and did not believe in building yarn inventories, Dhirubhai was a known risk taker and he considered that building inventories with anticipating a price rise and making some profit is good for growth. During this period, Dhirubhai and his family used to stay in a one bedroom apartment in Bhuleshwar. In 1968, he moved from the chawl to an upmarket apartment at Altamount Road, in South Mumbai. His first car was a premier Padmini. In 1970s he bought a white Cadillac car.

Dhirubhai started his first textile mill in Naroda in the year 1966. Textiles were manufactured using polyester fibre yarn. Dhirubhai started the brand 'Vimal', named after his nephew. Extensive marketing of the brand in the

interiors of India made Vimal a household name. Franchised retail outlets were started to sell only Vimal brand of textiles. In the year 1975, a technical team from the World Bank, visit this unit and certified it as excellent even by developed country standards.

Banks and financial institutions repeatedly turned him down when he needed money the most. He was just not in the same league as other businessmen of his time.

This made him an out of the box thinker. Dhirubhai's first public offering of 28.2 lakh equity shares in the then Reliance Textiles in November 1977 was oversubscribed nearly seven times. The issue fetched him Rs 3 crore, a big sum by the standards of those days. Between 1979 and 1982, Reliance made four debenture issues. In 1979 it was for a worsted mill; in 1980, for modernising its textile mill; in 1981, to manufacture polyester filament yarn at Patalganga. In 1982, he topped it all with a record Rs 50-crore issue for expansion and diversification.

Dhirubhai treated his shareholders like family members. Such "royal treatment" endeared him to his investors, says Kisan Ratilal Choksey, Chairman of KR Choksey Shares and Securities, a leading Mumbai brokerage firm.

"Dhirubhai understood the power of equity funding for his mega projects," says Devesh Kumar, Managing Director of Centrum Broking. "In that sense, he was a visionary, way ahead of his times, and an out-of-the-box thinker," he adds. He always made sure that the investors got returns commensurate their investments. Marriages, businesses, studies abroad of the investors

have been said to be financed by Reliance. He coined the term ' Mega Issue'. His faith in retail investor also gave a leg up to BSE and its 30-share sensitive index, Sensex. Lured by Reliance's power to deliver dividends and higher stock prices, thousands flocked to the market.

Dhirubhai was a visionary, because he looked at the future – a future he knew he may not even be around to enjoy. But that what propelled him and his stakeholder benefited from his search for a better future.

In 1982 Ambani began the process of backward integration, setting up a plant to manufacture

Polyester filament yarn. He subsequently diversified into chemicals, gas, petrochemicals, plastics, and power and telecom services. RIL bought IPCL from the government of India to become India's largest petrochemical player.

After the launch of the refining arm of reliance, Reliance achieved a huge cashflow position and has never looked back. Mukesh Ambani's statement that RIL will be like a " makoda" where even if a few legs are hurt, the organism will be hale and hearty and not stop its march forward.

Behind the Scenes

Despite his affability, some of his old colleagues describe Dhirubhai as a ' dark character'-not just because of the darkish skin he inherited from his father-but for the ambition and risk taking he hardly concealed.

He exported spices, often at a loss, and used replenishment licenses to import rayon. Later, when rayon started to be manufactured in India, he

exported rayon, again at a loss, and imported nylon. Ambani was always a step ahead of the competitors. With the imported items being heavily in demand, his profit margins were rarely under 300 percent

In the 1950s the Yemini administration realized that their main unit of currency Rial was in disappearing. After investigating the matter it was realized that all Rials were routed to the Port City of Aden. There a young man in twenties was placing unlimited buy orders of Yemini Rials.

During those days the Yemini Rial was a pure silver coin and was much in demand at the London Bullion Exchange. Young Dhirubhai would buy Rial, melt it in pure silver and sell it to bullion traders in London.

Reliance expanded its equity base through frequent rights and bonus issues to shareholders, while financial institutions converted 20 per cent of their loans into equity in September 1979. But the use of convertible debentures catapulted Dhirubhai Ambani into the big league in the capital markets. Dhirubhai had anticipated the government's policy with regards to the convertible debentures and the Series I issue of partially convertible debentures by Reliance in October 1979 raised Rs 70 million.

Although Reliance was not alone in trying the long disused instrument but from late 1980 the issues of partially convertible debentures coming from Reliance in quick succession, raising Rs 108 million in September from its Series 11 and Rs 240 million from its Series 111 the next year, and Rs 500 trillion from Series IV in April 1982.

Dhirubhai capped that by obtaining from Sen Gupta clearance to do what should normally be legally impossible: converting the non-convertible portions of the four debenture issues into equity. This proved to be a master stroke.

By this method, dubbed a 'brilliant and unconventional move' by many, Dhirubhai-Reliance was able to chop Rs 735 million off its debt book in 1983, and turn it into comparatively modest equity of Rs 103 million, while reserves were raised by Rs 632 million. Instead of an annual interest bill of Rs 96.5 million on debentures, the dividend burden from the extra equity was only around Rs 36 million. This transmutation allowed Reliance to continue raising more quasi-debt, with its E Series of partially convertible debentures in October 1984 which raised another Rs 800 million. This reduced the debt equity ratio and further increased the attractiveness of the Reliance stock which was becoming an outperformer on the Indian Stock exchanges. Reliance always used to persuade the regulators with respect to its debenture issues. This did not mean that all its issues were approved without any hurdles.

All questions being raised were not disposed of by Reliance's policy of "SALAM".

On one occasion, the regulator rejected the premium that Reliance was seeking to put on an issue, on the ground that projected profitability had not been indicated. Without a pro-forma balance sheet for the current year-an extension of results to date-it could not be accepted.

In 1982, Dhirubhai created waves in the stock markets when he took on a Kolkata-based cartel of bear operators that had sought to hammer down the share price of Reliance Industries. The cartel badly underestimated the Ambani ability to fight back. Not only did Dhirubhai manage to ensure the purchase of close to a million shares that the bear cartel offloaded, he demand physical delivery of shares. The bear cartel was rattled. In the process, the bourses were thrown into a state of turmoil and the Bombay Stock Exchange had to shut down for a couple of days before the crisis was resolved.

After this incident many questions were raised by the press. People could not understand that how; a yarn trader till a few years ago was able to raise such a huge cash flow in the time of crisis. The answer stood in a story detailed how companies registered in the tax haven, Isle of Man, with ridiculous names like Crocodile Investments, Iota Investments and Fiasco Investments had purchased Reliance shares at one-fifth their market prices. Curiously, most of these firms were controlled by a clutch of non-resident Indians who had the same surname, Shah. Yet another article detailed how the group had been the beneficiary of a 'loan mela' – a number of banks had loaned funds to more than 50 firms that had all purchased debentures issued by Reliance Industries

In 1993, Reliance was in the bidding for several oilfields in the Arabian Sea. The government oil search corporation had discovered the fields but did not have the funds to build the huge production rigs, gas compressors and pipelines that were needed. Several contacts among rival bidders were alleging that the tender was being rigged in favour of Reliance. Indian

politicians and bureaucrats are masters at tilting an ‘ open and transparent’ tender into a one-horse race, by techniques such as keeping the weighting of bidding factors uncertain or secretly promising later concessions to compensate for underbidding. In the event, Reliance swept the field, and a director with one of the losers told me: ‘ We were shafted, and for the wrong reasons.

Corporate Rivalry

Reliance frequently, routinely, put any criticism or opposition to its actions down to motives of envy or a desire to pull down anyone achieving success. Throughout every crisis caused by exposure of alleged manipulations, its publicity took on a self-pitying ‘ Why is everyone always picking on us?’ tone. But the record tends to show that it was Dhirubhai and Reliance who often made the first move to put a spoke in a rival’s wheels, whether it was Kapal Mehra of Orkay Silk Mills, Nusli Wadia of the Bombay Dyeing Group or, latterly, the Ruias of the Essar group. Coincidentally with disputes with Reliance, various rivals were hit with government inspections, tax problems, unfavourable press reports and physical attacks. The mid-eighties were a period during which the Reliance group got locked in a bitter turf battle with Bombay Dyeing headed by Nusli Wadia. The two corporate groups were producing competing products – Reliance was manufacturing purified terephthalic acid (PTA) and Bombay Dyeing, di-methyl terephthalate (DMT). Wadia lost the battle and reportedly became the source of information for many of the articles against the Ambanis that subsequently appeared in The Indian Express. In 1985, the Mumbai police accused a general manager in a Reliance group company of conspiring to kill Wadia, a charge that was never

established in a court of law. Many years later, a newspaper owned by the Ambanis would accuse Wadia of illegally holding two passports and played up the fact that he was Mohammed Ali Jinnah's grandson.

Year 1986 was a crucial one for Dhirubhai. He suffered a stroke in February that year. A few months later, the Express began publishing a series of articles attacking the Reliance group as well as the Indira Gandhi regime for favouring the Ambanis. These articles were co-authored by Arun Shourie who, ironically, later as Union Minister for Disinvestment in the Atal Behari Vajpayee government, presided over the sale of 26 per cent of the equity capital of the former public sector company, Indian Petrochemicals Corporation Limited (IPCL), to the Reliance group. By gaining managerial control over IPCL, the Reliance group would now be able to dominate the Indian market for a wide variety of petrochemical products.

Ramnath Goenka, once a friend of Dhirubhai, and owner of The Indian Express was also considered to be close with Nusli Wadia. On many occasions, Ramnath Goenka tried to intervene between the two warring factions and bring an end to the enmity. As the days passed by The Indian Express carried a series of articles against Reliance Industries and Dhirubhai in which they claimed that Dhirubhai was using unfair trade practices to maximise the profits. As Reliance had a close relationship with The Indian Express, Ramnath Goenka did not use his staff at the Indian Express to investigate the case but assigned his close confidant, advisor and chartered accountant S. Gurumurthy for this task. Apart from S. Gurumurthy, another journalist Maneck Davar who was not on the rolls of Indian Express started contributing stories.

The end to the tussle came only after Dhirubhai Ambani met with a stroke. While Dhirubhai Ambani was recovering in San Diego, his sons Mukesh Ambani and Anil Ambani managed the affairs. The Indian Express had turned the guns against Reliance and was directly blaming the government for not doing enough to penalise Reliance Industries. The battle between Wadia – Goenka and Ambanis had become so big that it became a national crisis.

It was not as if Indian politicians had not helped other industrialists in the past. However, the difference in the business-politics nexus at that time lay in the fact that by the time the Reliance group's fortunes were on the rise, the Indian economy had become more competitive. Thus, it was not enough for those in power to promote the interests of a particular business group. It became “ necessary” to simultaneously put down the competition.

Managing the Environment

Dhirubhai, more than many of his fellow industrialists, understood and appreciated the importance of ‘ managing the environment’, a euphemism for keeping politicians and bureaucrats happy. Ideas are no one's monopoly. Those who criticise me and Reliance's growth are slaves to tradition, if not to outright conservatism and complacency; the criticisms were put down to jealousy. But the same Man also felt' you have to sell your ideas to the government. Selling the idea is the most important thing, and for that I'd meet anybody in the government. I am willing to salaam anyone. His willingness to ‘ salaam’ anyone and his cultivation of junior staff and newcomers had by the early 1980s created a huge network of friends in politics, government ministries and financial circles. Earlier, goodwill had been cemented by gifts of the famous ‘ suit-lengths’ of material. After the

float of Reliance in 1977, Dhirubhai was able to allocate parcels of shares or debentures from the ' promoter's quota' of any issue, with a profit virtually guaranteed by the gap between issue and market prices or by the prospect of conversion. He made no secret of the fact that he did not have an ego when it came to paying obeisance before government officials – be they of the rank of secretary to the Government of India or a lowly peon.

It is hardly a secret that Dhirubhai's support base would easily cut across political lines. Very few politicians have had the gumption to oppose the Ambanis, just as the overwhelming majority of journalists in the country preferred not to be critical of the Reliance group. The Indian media, most of the time, has chosen to lap up whatever has been doled out by the group's public relations executives. The bureaucracy too has, by and large, favoured the Ambanis, not merely on account of the fact that many babus have got accustomed to receiving expensive hampers on the occasion of diwali.

Indira Gandhi's return to power opened a golden period for Dhirubhai Ambani. In 1979, his company barely made it to the list of India's 50 biggest companies, measured by annual sales, profits or assets. By 1984, Reliance was in the largest five. Dhirubhai himself had become one of the most talked and written about persons in India, gaining a personal following more like that of a sports or entertainment star than a businessman. It was also the period when Dhirubhai made the most rapid part of his transition, in the bitter words of a senior non-Congress politician in 1996, ' from supplicant-the most abject kind of supplicant-to influencer and then to controller of Indian politics'.

Dhirubhai – A legend

People close to Dhirubhai said that there were three Dhirubhai Ambanis. One was unique, larger than life, a brand name. He was one of the most talked about industrialists, and for Gujarati people he has tremendous emotional and sentimental appeal. He is their ultimate man, and has inspired many emulators. The second Dhirubhai Ambani is a schemer, a first-class liar, who regrets nothing and has no values in life. Then there is the third Dhirubhai Ambani, who has a more sophisticated political brain, a dreamer and a visionary, almost Napoleonic. People always getting the three personalities mistaken.

Dhirubhai was one man who tried to look beyond the obvious, who dared to dream and dared to achieve his dream. He did not let anything stop him. No restriction was strong enough to stop Dhirubhai Ambani. Whether what Dhirubhai has been claimed to do, he actually did or not, there is certainly no denying the fact that there is no businessman in India who attracted as much adulations as he did. He was more than a legend in his lifetime. He successfully convinced 4 million middle class households to invest their hard earned savings in Reliance Industry Groups. He fondly referred to his shareholders as ‘family members’ and conducted annual shareholder meetings in the atmosphere of large melas attended by hordes.

Dhirubhai Ambani was different man to different people. To his millions of investors, who had seen their share prices multiply, he was a business messiah. To one writer, he was a ‘Frankenstein’s Monster’ created by India’s experiments with close government control of the economy. The strictly controlled import licences given to registered exporters of textiles, allowing

import of raw materials worth a certain percentage of their export earnings. Like many others, Dhirubhai realised that these import or ‘replenishment’ licences (known as REPS) were as good as money, even though some of them were officially not transferrable and imports had to be made by the ‘actual user’ of the materials. By paying higher margins than any other traders, Dhirubhai soon became the main player in the market for REP licences. The margins were tiny in the trade itself – but his dominance also put him in the position of being able to turn on and off much of the supply of yarn into the Indian market.

Conclusion

Dhirubhai Ambani built his company through outstanding abilities and drive on many fronts: as an innovative financier, an inspiring manager of talent, an astute marketer of his products, and as a forward-looking industrialist. The energy and daring that showed itself in his early pranks, practical jokes and trading experiments developed into a boldness and willingness to live with risk that few if any other Indian corporate chiefs would dare to emulate. His extraordinary talent for sustaining relationships, and sometimes impressing men of standing, won him vital support from both governments and institutions.

The dark side of his abilities was an eye for human weakness and a willingness to exploit it. This gained him preferential treatment or at least a blind eye from the whole gamut of Indian institutions at various times.