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## New Spins

The Welspun Group's grand plans look good. Will they pay off?

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Balkrishan, son of food grain exporter Gopiram Goenka, was born amidst the Independence Day celebrations in 1966. He was not interested in higher education and he was not enthused by the family's grain business either. At 16, he decided to try his hand at money making by turning the family's loss-making movie hall into a commercial complex and also setting up a fast food corner there.

By 18, he was ready to sink his teeth into some real business — textiles. He spent a decade building a profitable textile empire with better margins than the blue-blooded textile giants such as Bombay Dyeing and Raymond, and then got into a completely disparate business area — steel pipes. Over a quarter of a century, he took advantage of government incentives each time the policy changed, jumped onto the Reliance bandwagon to build his initial business, and took some fairly big risks.

He took 25 years to build up a \$3-billion turnover group. (The Godrej group took over a 100 years to achieve a similar turnover). Along the way, he gained many admirers and also courted some controversy. His company's equity has never enthused domestic investors, but he managed to attract a \$500-million investment from private equity major Apollo this year. And while he has managed to raise money through IPOs whenever he has hit the market, the Securities and Exchange Board of India (Sebi) recently banned the promoters of Welspun and related entities from trading in the stock markets because of alleged unfair practices. (They are appealing against the order).

Meanwhile, the 45-year-old chairman of the group has spotted two new opportunities — in infrastructure and power generation. Over the next few years, Balkrishan Goenka's companies will sink in Rs 30,000 crore, expanding current businesses and developing these two new businesses. It does not worry him that he knows little about these businesses — he was a greenhorn in textiles and steel pipes as well when he started there. Nor does it matter to him that both these businesses are fraught with risks and that he is going against opponents as worthy as L&T, GMR, GVK and Adani to name a few. The tireless Goenka — he gets his energy from working out in his private gym one hour daily — has no intentions of resting on his laurels.

The way Goenka sees it, by getting into these new businesses, he will be able to double in three years what took him 25 years to build. He is reasonably certain he will succeed. After all, his towels are used by some of the best and brightest — including Roger Federer and Rafael Nadal when they play at Wimbledon. And global oil giants Chevron, ExxonMobil and BP all buy his steel pipes. So why should not he be able to build great power plants, roads or city-wide water pipe systems?

### The First \$3 Billion

Goenka, who is from a Marwari family, was brought up in Hissar, Haryana. While he was in school in 1976, the family shifted to Delhi. When he turned 18, Goenka flew to London to understand trading. In 1985, he came to Mumbai to join hands with his maternal uncle and set up a textile plant. That was the beginning of Welspun. The first unit — Welspun Winlon Silk Mills — was founded at Palghar in Maharashtra with promoter capital of Rs 20 lakh and a Rs 86-lakh loan from Canara Bank.

The company grew rapidly over the next few years as Dhirubhai Ambani's Reliance Industries was supporting textile business, which would consume their POY (partially oriented yarn). After four years, Welspun started another plant in Silvassa, where the government was offering a 25 per cent subsidy and sales tax benefit for a project of up to Rs 1 crore.

Till then, Welspun's focus was the Indian market. But the 1991 financial crisis in India saw the first major change in Welspun's strategy. To recover, the government had decided to increase foreign currency inflow and offered incentives for export-oriented units (EOUs). "So we had explored the idea of an export-oriented unit. We got the idea of putting up a terry towel plant for the western market," says Goenka.

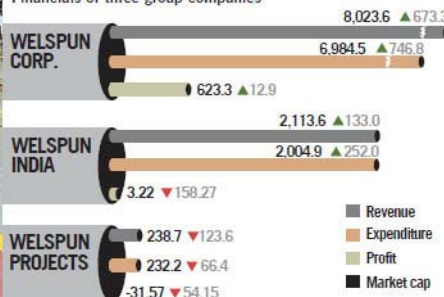


**FAMILY BUSINESS:** Welspun Group chairman B.K. Goenka with his wife Dipali Goenka who runs the home textile business (BW pic by Subhabrata Das)



## The Big Picture

Financials of three group companies



Welspun appointed textile consultant Gherzi in Zurich to prepare a report. Goenka went around the world to see global plants. "We conceived the first Welspun terry towel project at a cost of Rs 52 crore."

After setting up the plant, Goenka realised that selling the product would not be that easy. "When our first towels went to the customers, they thought we bought towels from their market and changed the labels. The "Made in India" brand

credibility was low, because of poor quality of products and delay in delivery. The condition was to export 75 per cent of products because of the EOU status. Interest for the loan was so high. And we were struggling to fully utilise our capacity," he recounts.

For the first three years, the struggle was to keep their heads above water. In 1994-95, Welspun managed to convince Wal-Mart to buy its towels. "After the Wal-Mart order, we doubled capacity. Then, we integrated backward to cotton spinning. We spent another Rs 292 crore for expansion for towels and spinning."

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In the textile saga, the golden move of Welspun was the acquisition of a century-old UK brand Christy, which is the official towel supplier for Wimbledon. Today, any tennis star who is wiping his or her face after a hard fought game at Wimbledon is probably using a Welspun towel.

Though towels were doing well, it was not enough for Goenka. In 1997, he made a big leap into a completely different area. Initially, they were planning to get into infrastructure when the idea of making line pipes struck them. Another maternal uncle, who was heading a German pipe company, guided him. At that time, only Jindals were in the business of saw pipes.

The project cost was Rs 190 crore. But the banks were not ready to approve loan as Welspun's background was in textile. Goenka co-opted the Gujarat government as an equity partner, and this helped in raising debt as well. With a successful IPO, the company managed to build the project with the technology of Germany-based SMS.

Again, Goenka found that putting up the plant was easier than selling the product. For selling the pipes to clients like Indian Oil and Gail, a company needed five years of experience. "So we continued without any order because of lack of experience," says Goenka.

The capacity utilisation was 10-15 per cent. After struggling for two years, Welspun convinced global giant Enron, by showing them their advanced Vapi textile plant. "We told them that we could manufacture pipes in the same quality as our towels," says Goenka. After seeing the clientele, Enron gave the first order of Rs 260 crore for its Dabhol plant. Unfortunately, Enron imploded shortly afterwards.

Welspun turned to global markets and again, the Made in India tag hurt. The first two years were bad and it had to restructure debts because of high interest rates.

### \$ 3 billion

The Welspun Group has 18 companies and spans diverse sectors — from textiles to steel pipes



TEAM WELSPUN: (From top) Rajesh R. Mandawewala, managing director, Welspun Group; Vineet Mittal, managing director, Welspun Energy; Parvez Umrigar, managing director and CEO, Welspun Infratech; Akhil Jindal, director, corporate affairs, Welspun Corp.

They started getting a trickle of orders, which turned into a flood as their reputation grew. Today, the pipe business is the largest for Welspun. Rajesh R. Mandawewala, managing director of Welspun Group, says the firm will build another three pipe mills abroad, in addition to the two — in the US and Saudi Arabia — that exist. In India, it has three mills, including the recently-commissioned mill for south India. It will set up one each for the north and the east.

Welspun's multi-location strategy is essentially to make up for freight disadvantage, says Mandawewala, who is a cousin of Goenka. "Latin America is a huge market for us. Africa is getting international exposure with rise in energy business in Nigeria and Algeria. In the Middle-East, we are only at the tip of the iceberg. Indonesia, Thailand and Malaysia are also fascinating," he says.

The second strategy to become a global giant in pipes is by capturing the entire value chain. According to V.S. Bapna, executive director and chief executive officer of Welspun Steel, the company makes steel plates and coils for pipe manufacturing. "The next step behind is slab making like any other steel unit. We are already there. Further behind, we will acquire iron ore mines for captive use. Mines in Australia, West Africa and India are on radar," he says.

If the company could produce the slab, the cost reduction per tonne will be of the order of \$100. Forward integration is also on the cards. The group is looking at pipe transportation and laying business. The joint venture with world's major project development company Leighton is for Welspun to acquire skills infrastructure activities like pipe laying.

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Welspun's international customers seem to be happy. Semir Belage, manager in gas transmission major TransCanada, says Welspun completes projects to the customer's satisfaction. TransCanada bought pipe from Welspun for its major projects like Keystone Pipeline (Canada-US), Manzanillo-Guadalajara (Mexico) and Bison (Canada). "Welspun has provided pipe to us for both the very deepwater Gulf Of Mexico and fast track onshore projects in Texas and Louisiana. In both scenarios, our requirements have been met," says Abid Yousuf, vice-president (supply chain management) of Enterprise Products Partners.

### The Next \$4 billion

But pipes alone will not meet Goenka's goal of becoming a \$7-billion business in the next four years. For that, he plans to invest about Rs 30,000 crore in the next five years in enhancing production across the chain, and building a new portfolio. The new businesses — infrastructure and power — are expected to consume more capital than existing businesses. The infrastructure business plans to generate Rs 10,000 crore in revenues in five years. Parvez K. Umrigar, managing director & CEO of Welspun Infratech, says, "We have the natural advantage in water projects, where we can play three roles — developer, contractor and supplier."

Welspun Infrastructure eyes a revenue creation of Rs 6,000 crore in five years as developer of projects. In public-private partnership projects, the developer needs to infuse capital for construction. The return would be guaranteed from collecting toll or real estate subsidy or annuity deferred over a period of time. The company has Rs 800 crore worth of assets under operation. The contracting business Welspun Projects, a subsidiary of Welspun Infratech, targets Rs 4,000 crore in revenues in five years. The firm has an order book of Rs 5,500 crore, says Umrigar.

Welspun Energy's projects are capital intensive as it builds over 5,000 MW power generation capacity. According to managing director and co-founder Vineet Mittal, the power portfolio is a mix of thermal, hydro, solar and wind projects.

Says an industry expert: "Welspun Energy is careful about the environmental and land acquisition issues." The new points: Welspun Energy in Orissa is bidding for an ultra mega power project and a Welspun consortium is bidding for the Vizhinjam Port in Kerala.

#### Textile Still In Front Seat

Goenka's wife Dipali, who heads the home textile division, says the investment for increasing the revenue from her business has been completed. "We expect that the revenue would increase to \$1 billion by 2013-14 from \$650 million." The \$12-billion home textile market in the US will continue as the largest for them, in addition to Europe. As US retailers expand to neighbouring Canada, Welspun will find a space in the shelf there. In China, the firm has increased the sales by 25 per cent in the last year through the customer network of Li & Fung.

Welspun is strengthening its position in Australia and is getting into Japan, a tough market. "They insist on high-grade products. It takes ages to create a vendor base there. If you get a breakthrough, it will be a marriage for life," says Dipali. Welspun will add 32 looms in India this year, and de-bottleneck its plants to add 15-20 per cent production capacity.

#### Not Without Risks

Since Welspun's major market is the US, dollar fluctuations and economic crises will hit its performance. According to Niraj Mansingka and Kunal Gupta of Edelweiss, the exchange rate volatility could lead to losses. The fall of oil price could impact the group as its major business is selling pipes to the oil and gas players.

**THREADBARE**  
A snapshot of the 10 companies across five sectors that form the Welspun Group

**LINE PIPES**  
**WELSPUN CORP.:** The world's second-largest line pipe (large diameter) maker. Facilities at Dahej & Anjar (Gujarat), Mandya (Karnataka), Little Rock (Arkansas, the US) and Damam (Saudi Arabia)

**WELSPUN STEEL:** Manufacturer of ribbed thermo mechanically treated rebars

**WELSPUN MAXSTEEL:** The sponge iron division acquired from Aditya Birla Group's Grasim Industries. It was earlier called Vikram Ispat

**TEXTILES**  
**WELSPUN INDIA:** The largest towel maker in Asia. It has manufacturing units in Vapi (Maharashtra), Anjar (Gujarat), Mexico and Portugal

**WELSPUN GLOBAL BRANDS:** Owns brands such as Christy, Sorema, Graciozza, Amy Butler, Hygrocotton, Luxus, Welhome and Spaces Home & Beyond

**WELSPUN SYNTAX:** Exporter of polyester texturised filament yarn **WELSPUN ZUCCHI**

**TEXTILES:** A joint venture with Vincenzo Zucchi of Italy for bathrobe manufacturing

**INFRASTRUCTURE**  
**WELSPUN INFRA TECH:** Bought MSK Projects. It also acquired 35 per cent stake in Leighton India, subsidiary of global engineering, procurement and construction major Leighton Australia

**POWER**  
**WELSPUN ENERGY:** Setting up projects to generate 5,000 MW across hydro, thermal, solar and wind

**OIL & GAS**  
**WELSPUN NATURAL RESOURCES:** Owns 35 per cent stake in Adani Welspun Exploration, which has eight fields, five in India, two in Thailand and one in Egypt

The third round of diversification will help the company derisk its portfolio geographically and sectorally. But the infrastructure business is exposed to the red tape and cut throat competition and political influence.

Delay in order accretion due to higher competition, lower Ebitda margins, volatility in prices of key inputs (steel, coal and iron ore) and decline in plate prices are key risks for the firm, says analysts at Edelweiss. Other analysts say that Welspun's \$450-million plate mill is yet to break even and running at half the capacity.

Still, Goenka is unfazed and his dreams are intact. He has weathered tougher situations.

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