Thirteen

Dreams in Kabutarkhana

Boldness in business is the first, second and third thing.

—THOMAS FULLER

Dhirubhai Ambani was a master gamesman who managed the License Raj to his advantage and he came out on top. Against all odds, he created within a generation an outstanding company called Reliance, which grew at a scorching pace to become India's largest company and among the world's top five producers of petrochemicals, such as polyester, polypropylene, PTA, and polyethylene, the world's largest maker of paraxylene and PET, and at the end of the century set up the world's largest multifeed refinery. In the process, Dhirubhai made a mockery of the decaying and corrupt control regime of Indira Gandhi. He became an inspiration to hundreds of young entrepreneurs, and the darling of the Indian stock markets. By 1995, he had 2.4 million shareholders—more than any other company in the world—so many that it had to hold its annual general meetings in a football stadium. To its critics, he became a symbol of everything that was wrong with the License Raj.

At the time that I was wandering around the bazaars of Bombay in the mid-1960s learning to sell Vicks VapoRub to wholesalers and retailers, Dhirubhai Ambani was hustling nearby in Bombay's Mulji Jetha wholesale market. He was peddling imported nylon yarn, which he had acquired through the export of rayon fabric. He worked from a tiny borrowed office in Bhaat Bazaar, but he spent most of his day trudging in the muggy, teeming yarn markets of Pydhonie, chewing paan and drinking endless cups of tea. There was little to distinguish Dhirubhai from other traders. They were all sharp and had learned to operate on razor-thin margins. He lived in the bowels of Bombay's bazaars, in one room with his wife, his brother, his mother, and his two sons in Kabutarkhana in Bhuleshwar. It was a fifth floor walk-up, pigeonholed among five hundred families.

"Kabutarkhana" is literally a place where pigeons live, but no one is quite sure how it got its name. There is a temple next door where everybody goes and prays, and throws *chana* to the pigeons. Kabutarkhana is also home to Bombay's milkmen, and there is a milk market nearby in Pinjrapol. Strange companions to the milkmen are Bombay's embroiderers, who include the famous retailer, Maganlal Dresswalla. Everyone agrees that there is a lot of hustle and bustle in Kabutarkhana.

Like other traders, Dhirubhai used to take his family by bus to Chowpatty Beach on Sundays, where they permitted themselves two treats per person—a snack and a drink or two snacks. Sometimes on a Sunday he took his boys to watch hockey at Churchgate and followed it up with idli-sambhar at an Udipi cafe. "Sunday was an important day," remembers his son Anil Ambani. Only a short distance away from Dhirubhai's world was the upper-middle-class leisurely life of gymkhana clubs, comfortable jobs, spacious flats, and Saturday evening parties.

What set Dhirubhai apart from other Gujarati traders is that he had vision, and he understood the minds of men. He realized that synthetics were the future fabric of the Indian middle class, although the government regarded them as a luxury and taxed them at extortionate rates. Sense would prevail one day, thought Dhirubhai, as he plowed his trading profits into a small but technologically advanced textile mill that he set up near Ahmedabad with a paid-up capital of Rs 150,000. From this beginning, Dhirubhai followed an audacious but classic business strategy over the next twenty-five years: beginning with trading in synthetic fabrics, he integrated backwards to make the fabric; after manufacturing synthetic textiles, he went backwards to make its raw material, polyester fiber, and fiber intermediates; then further backwards to make polymers and chemicals, until he reached the basic raw material, petroleum. When he got there, he built the world's largest ethylene gas cracker and oil refinery. Not content, he finally began to explore for oil off the shore of western India.

Dhirubhai is proud to belong to the "zero club," because he started with nothing. He was born to a schoolteacher in Chorwad, a village in Junagadh district in Gujarat. The nearest town was Porbander, where Mahatma Gandhi was born and raised. Dhirubhai was one of five children, and like all families of village schoolmasters, they were poor. He was of Modh bania caste and even as a boy was irrepressibly driven by the smell of business. "During Mahashivratri Dhirubhai got his friends together and sold *gathia,* a Gujarati savory, at the fair," recalls his older brother. He "was a familiar sight, cycling from village to village," adds a contemporary from Chorwad. "All he needed was an opportunity and he was off to book orders." He went to high school in Junagadh in a yellow stucco building which had been built by the nawab of Junagadh in 1902. Because he was poor, they admitted him as a "free student," and he lived in a boardinghouse supported by the Modh bania community. The nawab of Junagadh at the time was famous for only one thing—his 150 dogs and an equal number of dog handlers. He is supposed to have spent Rs 20 lakh on the wedding of his favorite canine pair and given his 700,000 subjects a public holiday on that day.

Too poor to go to college, Dhirubhai went off to Aden, then a British colony in the Middle East. His first job at seventeen was filling gas as an attendant in a Shell petrol station. Soon he found a better job as a shipping clerk in Besse & Company, an affiliate of Shell. Oil was the only business in Aden, and he became fascinated by it and dreamed of creating an oil business of his own one day. He was good at his job and he rose quickly. Soon he had a car and a flat. He came home on a holiday, married a Gujarati girl from his village, and took her back to Aden. He had achieved the middle-class dream, yet he suffered from discontent. He was not happy to remain a functionary in an insignificant subsidiary of a multinational giant. After work, he tried to divert himself by trading in the souk. Eventually, he quit and returned home to start a business of his own.

He settled in Bombay and with a capital of Rs 150,000 became a trader in synthetic yarn. The problem for a yarn dealer in Pydhonie was not to find buyers but to get supplies. Our system of industrial licensing and import controls and quotas ensured scarcity. As a result, there was massive smuggling of nylon, viscose, and polyester cloth. The major source of supply for Dhirubhai was through import or replenishment licenses (called REPs) which were issued to exporters, allowing them to import a portion of their export earnings. Strictly speaking, many of these licenses were not transferable, because one had to be an "actual user" to import. Nevertheless, a market had developed for them. Since Dhirubhai was a bigger risk-taker and willing to pay a higher price for the license, he soon became “the king of REPs.” His dominant position allowed him to control the supply of yarn and he made huge profits. Periodically there were reports in the press that “actual users” licenses had been misused; there were raids by customs officials; the market would dry up. Soon the crisis would pass, and things would get sorted out. Dhirubhai was never implicated.

In order to have greater control over supplies, Dhirubhai decided to invest his trading profits in a new factory to manufacture synthetic textiles. To become an industrialist, however, he needed a license. To get a license he needed connections. He had learned by now that it was paramount to have friends in Delhi. Indira Gandhi was the Prime Minister and she had a trusted private secretary named Yashpal Kapur. Dhirubhai became a friend of Yashpal’s, and later of his nephew and successor, the formidable R. K. Dhawan. He also got to know the excellent T. A. Pai, a minister in Indira Gandhi’s government, whose family had owned the Syndicate Bank before it was nationalized. Like a good banker,. A. Pai could smell a smart entrepreneur, and the Syndicate Bank agreed to finance his textile mill.

Soon Dhirubhai had become a proud manufacturer. However, he continued to be plagued by raw-material scarcity—basic filaments and yarns for making synthetic fabrics. He resisted breaking the law and smuggling in supplies (as some did). Instead, he persuaded. A. Pai to authorize official imports of polyester filament yarn (PFY) against exports of nylon fabric. It became known as the High Unit Value Scheme and it made Dhirubhai a fortune. Even if it meant exporting the fabric at a loss, it was hugely profitable to import PFY because the Indian price of PFY was six times the world price. Dhirubhai admitted in a *Business India* interview in April 1980 that he accounted for 60 percent of the country’s imports and exports under this scheme. He began to export like a maniac—to Russia, Poland, Africa; he sold synthetic sarees to Indians in Southall in London; he conducted high-profile fashion shows. His quality was excellent, his marketing was innovative, and his deliveries were reliable.

In 1977, Indira Gandhi was swept out of power. The succeeding Janata government canceled the High Unit Value Scheme and Dhirubhai’s exports became unprofitable. He decided to enter the domestic market. In order to compete, he realized that he needed a brand name, one that would stand for his consistently high quality. He decided on Vimal, and launched one of the most memorable and swish advertising campaigns of the era—“Only Vimal”—and he backed it with the biggest advertising budget of the day. Soon Vimal had become a household name. However, he had a problem with distribution. He met with resistance from wholesalers in the traditional cloth markets whose loyalties were with the older mills. He solved the problem innovatively by bypassing the wholesalers and setting up exclusive Vimal showrooms in the main shopping centers of the country. He was able to franchise his name and showrooms to more than five hundred retail shops across India.

By 1980, Dhirubhai had become the leader in the textile business and he was again restless. In line with his strategy to integrate backwards, he now decided to make polyester fiber, the raw material for synthetic textiles. However, the government did not allow individuals its manufacture at the time because it still believed that synthetics were an elite product and not suitable for the masses. Mrs. Gandhi was now back in power and his friends were back in their jobs. Although he had friends in high places, he still had to patiently and tirelessly lobby for months with policy makers, demonstrating with figures the experience of other countries and the volume of synthetics smuggled into India. At last the government opened its doors. He and forty-two entrepreneurs applied for a license, and he was among three who won. His rivals screamed bloody murder and Bombay was abuzz with rumors of payoffs to politicians.

In order to be the lowest-cost producer, he wanted his polyester plant to be of world-scale capacity and of the latest technology. Only then would he be able to sustain cost and quality advantages. He also wanted to be able to continuously upgrade his technology. These ideas were too novel for the regulators. Until now, most Indian plants had been puny, of a “safe size,” based on calculations of a reasonable market share in an economy of shortages. No Indian industrialist had thought boldly in terms of exploding markets, of latent demand, of competing against world players, of discontinuous technologies. The conservative bureaucrats refused to listen to him—despite his connections.

Again, Dhirubhai’s people lost months trying to educate the regulators. Eventually they succeeded, but his rivals again yelled “payoffs.” Once he had the coveted permissions, his organization went into high gear. They worked at a furious pace to put up the polyester plant in eighteen months. Dupont, which provided the technology, was amazed. “In our country it would take us not less than twenty-six months to erect and commission such a project,” said the director of Dupont. As a result of such efficiencies, Dhirubhai’s conversion cost of the yarn came down to 18 cents a pound in 1994, compared to 34 cents of Western Europe producers, 29 cents in North America, and 23 cents in the Far East. Once the polyester plant was up and running it quickly became a success—within two years its sales and profits outstripped the textile business. With plenty of domestic supply of polyester yarn, Indian textile mills switched to making synthetic textiles.

Having tasted success in the first phase of backward integration, nothing could now stop Dhirubhai from moving ahead with the rest of his dream. In 1986 he announced plans to go backwards to produce the petrochemicals terephthalic acid (TPA) and paraxylene, as well as the detergent intermediate, linear alkaline benzene (LAB). In 1988 he ventured into polymers and floated Reliance Petrochemicals. By now his two sons, Mukesh and Anil, with MBAs from America, had taken over the day-to-day running of operations. They were unusual for the second generation because they had their father’s hunger, talent, and discipline. Reliance was moving at such a blistering pace that people talked of his “owning” the government. Otherwise, they said, how could he get the licenses and clearances to move ahead?

In 1991, the government’s economic reforms unshackled Dhirubhai. They scrapped licensing, and he decided to build the world’s largest refinery. He raised money from stock markets for Reliance Petroleum. People asked, isn’t there a glut in the market with excess refining capacity? Dhirubhai replied that the rapidly growing Indian middle class had an insatiable appetite. Both Coke and Pepsi, he pointed out, had converted to plastic bottles and crates, and this had led to an explosion in Reliance’s polyethylene and PET markets. Plastic furniture was replacing wood, and this would ensure a demand for Reliance’s polypropylene. Two-wheelers were growing 35 percent a year, and India had already become the world’s second-largest market.

What captured everyone's imagination was the way Dhirubhai went about single-handedly creating an "equity cult" among the Indian middle class. Because the banks would not lend him enough capital, and because he was unwilling to kowtow to the public financial institutions, he turned to the public. In 1977, he first offered his shares to the public on the Bombay and Ahmedabad stock exchanges. Painstakingly, he went around the country, mobilizing funds from small investors. Thanks to him, Indian shareholders increased from one to four million between 1980 and 1985. Of these, one in four was a Reliance shareholder. He succeeded because he delivered what he had promised—steady appreciation in their shareholding. By 1983, a Reliance shareholder had achieved a 75 percent annual compound rate of return; by 1986, it was still an impressive 45 percent. By the mid-nineties Dhirubhai had 2.4 million shareholders. He had become a legend in small towns, where people who had never thought of investing in the stock market had learned to buy shares, to read the financial pages of the newspaper, and to monitor the value of their investment. Dhirubhai single-handedly energized the Indian capital market.

With its millions of investors, Reliance was forced to conduct its annual general meetings in a football stadium in south Bombay. I had bought some shares of Reliance in 1982, and I too showed up at the 1995 meeting at the Cooperage football ground. Surrounded by 12,000 shareholders, I was fascinated by the three-hour extravaganza, which was skillfully packaged to entertain and enlighten us. "My investors are my biggest bankers," Dhirubhai declared at the meeting. A senior executive of a foreign bank sitting next to me whispered, "Reliance is actually a bank masquerading as a petrochemical company!" The next day's *Financial Times* reported in London that it was the largest company AGM ever held.

What is Dhirubhai's secret of success? He succeeded in part because he stuck to his knitting. Other Indian business houses, in contrast, were diversified hopelessly in dozens of business activities. Reliance focused on adding value to a single product's vertical chain—petroleum. Personally too, Dhirubhai concentrated on his business and shunned leadership positions in chambers of commerce and other social distractions. From the beginning, he strove for global competitiveness, and he benchmarked himself with the best in the world. Today, his leading competitors are large multinationals—Dupont, ICI, and Shell—and not Indian companies. Finally, he managed brilliantly the tough environment of the License Raj; instead of complaining, he was not shy to engage in the nitty-gritty of negotiation. He played the archaic licensing system to his advantage. For this reason, many people thought that after the 1991 reforms, he would collapse in a freer, competitive environment, and the Reliance bubble would burst. The opposite happened—his performance has improved year after year.

Today, Dhirubhai's two sons are single-minded and they put in long hours. So single-minded, in fact, that Anil Ambani took a direct flight home to Bombay four hours after completing his final exam at Wharton. After he had shaved and showered, he was taken to the office within an hour of his arrival. Within days, Anil was sent to Naroda, near Ahmedabad, to look after the textile plant. As he was leaving for Naroda, Anil asked, "What about a holiday?" Dhirubhai replied with a smile, "Naroda is your holiday, son." I met Anil Ambani in the late 1980s when he came to sell us LAB for our detergents at Procter & Gamble. I was impressed by his foresight. We had not yet decided to enter the detergents business, and I told him so. He gave me five good reasons why we should. I thought to myself, “Here is a good salesman—he is telling me how to run my business.”

The Reliance story is an inspiration to many young people across India. The start of his refinery in July 1999 sent a powerful message to all Indians with global amibition that dreams could become real. In the year 2000, Reliance’s sales exceeded $10 billion. It is common, especially in Bombay, to hear youngsters say, “If only there were ten Dhirubhais.” However, there is another side to the story. Dhirubhai faced terrible difficulties. Everyone tried to stop him. Especially celebrated was his spat with his powerful rival Nusli Wadia, which filled the pages of the *Indian Express* for months together. His real enemy, claim his sympathizers, was the government. His critics contend, on the other hand, that he controlled and manipulated the government to his advantage. What cannot be contested is that at each stage he had to fight to prove that government policies were wrong. It took decades for the government to realize that synthetic textiles were not a rich person’s fabric and did not deserve to be punished with luxury taxes. It took years of lobbying to get the government to open petrochemicals to the private sector. It took months of negotiations to make the government realize that world-scale plants would be the most efficient. He had to move mountains to get the controller of capital issues to agree to his pioneering financial instruments, such as convertible debentures for his shareholders.

Dhirubhai’s story is an Indian morality play. At one level, it is a classic rags-to-riches story. It is about the ascent of a simple village boy who created against all odds a globally competitive enterprise to become the most powerful businessman of modern India. At another level, it highlights the dilemma posed by a decaying and corrupt system. Does one give up one’s dream of an outstanding, world-class enterprise defeated by retrograde laws or does one match wits against the system?

The inevitable conclusion from Dhirubhai’s story is that a world-class enterprise—with global capacities, rapid response to customer needs, vertical integration—could never have been created under the laws that prevailed in India between 1965 and 1991. For one Dhirubhai who succeeded, there were hundreds who failed.