

# Business India

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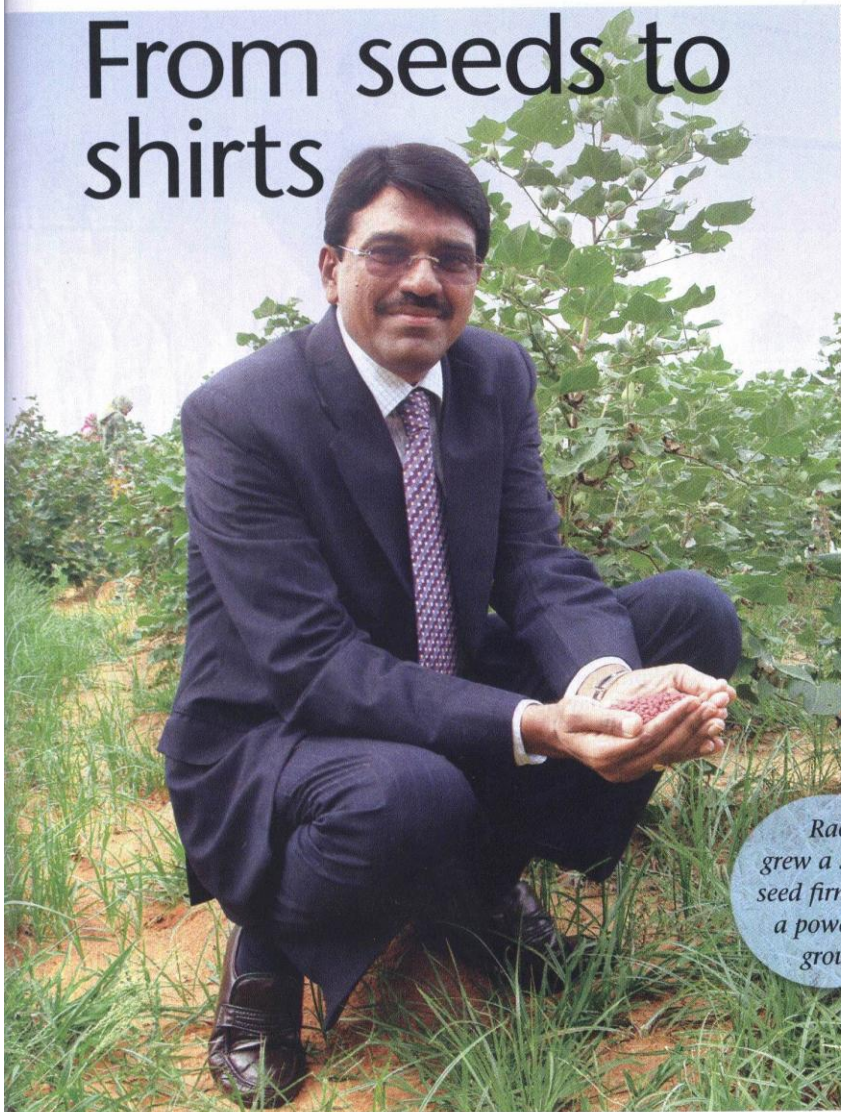
October 30, 2011

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BUSINESS INDIA ♦ October 30, 2011

Corporate Reports

## From seeds to shirts



PHOTOS: SORAB MEHTA

Rao grew a small seed firm into a powerful group

**The Hyderabad-headquartered NSL group has grown from its humble beginnings as a Guntur-based seeds company to a conglomerate in cotton growing, ginning, spinning, weaving and apparel, with interests in sugar, power and infrastructure**

In the beginning was Nuziveedu Seeds, a small start-up in Guntur, Andhra Pradesh. From its inception by Mandava Venkataramaiah in 1973 till his son M. Prabhakar Rao finished college at Banares Hindu University and took over the reins in 1982, it stayed small. In the past three decades, however, it has grown to become the *numero uno* in cotton seeds, claiming a market share of nearly 45 per cent and a relationship with 10 million farmers across 17 states. "Once in, it's like a race!"

Prabhakar Rao says. "You have to watch the competition, understand how to do things better and outbeat them."

Having built up a ₹650-crore company and established supremacy in cotton seeds, why not use them to grow his own cotton? So began NSL Cotton, with farms in neighbouring Marathwada district of Maharashtra. After cotton, ginning and spinning was an obvious extension. This is now a ₹480-crore business. Next, naturally, came spinning – ergo, NSL Textiles. From there to apparel – and so came shirts, reaching the logical limit of forward integration of the business. "We are a C2C group – cotton to clothing!" says A.P. Rao, group head, human resources.

Along the way came a number of unrelated diversifications: NSL Power, NSL Sugars, and NSL Infra (see box: *Stepping sideways*). Among the six companies, the group today boasts a turnover of ₹3,500 crore, with aspirations to cross the ₹10,000 crore mark by 2015. Long before then, according to group chief financial officer N.M. Vaidyanathan, the parent seed company and NSL Regen Powertech – which makes wind turbines – will go public. "We hope to do this in the next year and a half," he says. "We have IPO plans for all the companies, but these are the most mature businesses."

"A couple of companies from this group have raised funds from PE players. There is a fair degree of speculation that these companies may give an exit route to the PE players via IPO once the stock market looks up," says M.S. Anand, president, Investor Relations Society. "Nuziveedu Seeds, the flagship company of the group, is not only one of the biggest seed suppliers in the country, but is also sitting pretty on a land bank owing to its initial foray into seeds. While the group has interests ranging from power to infrastructure to agro-based industries like sugar, textiles and spinning, more than 45 per cent of its revenues accrue from seed sales alone."

Satish Kagliwal, managing director of Nath Biogene (India) in Aurangabad, Maharashtra, describes

PRAKASH JADHAV



Agarwala : NSL cotton is leveraging its experience in cotton seeds

Mangatani: focussing on international markets

Prabhakar Rao as 'a good friend'. "His is a tremendous success story," says Kagliwal. "Nobody else has been able to go beyond all limits like he has – not even the established players like Mahyco and Rasi! He knows technology and finance, and he has expanded into power, sugar and SEZs, though every diversification is a risk and unrelated diversifications rarely flourish."

"NSL is an excellent risk-taking entrepreneur," agrees another veteran seed industry insider, who has non-disclosure agreement with a former employer. "But though it has become the largest seed company in India since the introduction of Bt Cotton seed in the country, does it have the germplasm and the technology to keep the lead? That will determine who wins the race in the longer run." Describing cotton genetics as 'cyclical and fickle', he points out that Rasi Seeds, at Attur near Salem, Tamil Nadu, had leadership in cotton hybrids, but slid for two or three years – and is on the upswing again.

"Even earlier, our hybrids were better than the competition," says K.R. Rao. "With Bt, we're on top." Talking about the first forward integration from Nuziveedu Seeds into cotton growing, Prabhakar Rao describes it as a 'unique model' – with

300,000 hectares under contract farming and a dozen ginning units, a quarter million spindles that can turn out 15 tonnes per day of yarn, 600 looms with a capacity of 100,000 metres per day and a garment facility, which can make 20,000 units a day. "Size matters for global survival!" he explains.

#### Branded cotton

Adds Vaidyanathan: "We help the farmers in various ways, supply them with seeds, assure buyback of the crop, and work closely with them to ensure good quality that meets international norms." In Aurangabad, NSL Cotton's chief operating officer Rakesh Agarwala says, "We have an ICF (integrated cotton farming) team, which gives free technical advice on what pesticide and how much water to use, ensure that they don't use child labour and implement a complete cotton buyback agreement. We are also part of the UK's Better Cotton Initiative (BCI)." The big difference in this company, he says, is that it is "leveraging its 40 years of experience in cotton seeds". NSL Cotton, which is pioneering a change in the industry with the introduction of the first branded cotton in India, produces 300 bales of 170 kg each, everyday

during the six-month season from October to March.

At NSL Textiles, CEO Ajit B. Mangatani describes garments as "a way of marketing my company's profitability". With two garmenting units – one owned, in the chairman's home town Guntur, and the other leased, in Hyderabad – the company not only supplies shirts to Zara in Europe but has also introduced its own brand, Constello London, which it is test-marketing through 20 stores in Andhra Pradesh. "The chairman is not keen on getting into a high-value, niche market – so we want to build up a large volume of affordable products, which touch lots of people," he explains. "We have invested ₹1,500 crore in the past five years to set up a new value chain."

The capacity to produce 40 million metres of high-value shirting – and some trousering – material, says Mangatani, is because the company is focussing 'heavily' on international markets. "We have people who are specialists in Europe and the US, spreading our net there!" he adds. Even in the domestic market, the brand name has been chosen to give the shirt a 'world-class image' he explains.

"We have been planning and working towards establishing

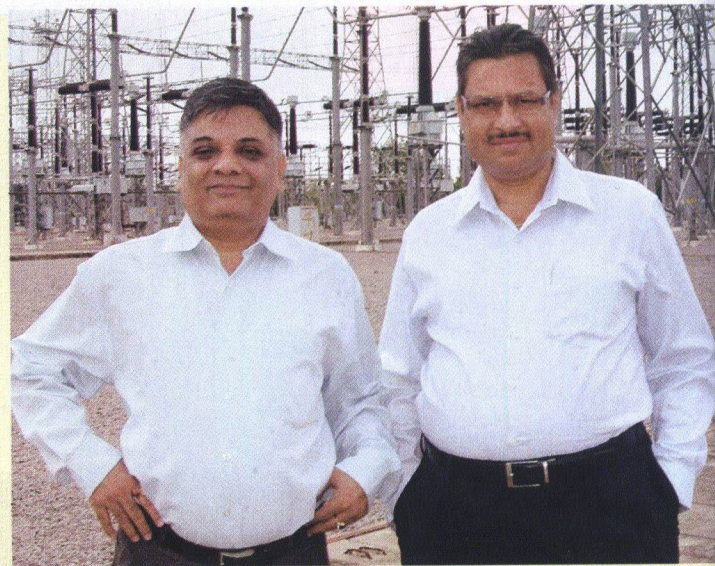
## Stepping sideways

**M**oving forward from producing cotton seeds to growing cotton, to textiles and eventually clothing is fairly straightforward progression. But power? Sugar? Special Economic Zones? “We got into renewable energy for tax planning for the seed business, which was making a good profit,” explains chairman Prabhakar Rao. “We had some starting hiccups, but we did a lot of research into the financial returns and kept investing, especially in Tamil Nadu which has a much more favourable policy than Andhra Pradesh. We realised it’s a good business – so much so that we didn’t even claim the accelerated depreciation benefits!”

“But we found limitations of availability of equipment in India, and felt the need

to bring in better, more efficient technology so that we could give better returns on investment,” Prabhakar Rao says. So, he set up NSL Regen Powertech, in collaboration with two Chennai-based entrepreneurs and private equity funding from Indivision of the Future group. Zeroing in on German company Vensys for its technology, it now makes gearless machines that use permanent magnets and don’t need grid power to start, unlike the conventional ones. “We also have our own research and development,” says group director K.R. Rao, “which has a prototype in the design stage.”

From wind to thermal power plants was also a step that looked good, and two separate companies came up



*Bhandari and Chaturvedi are concentrating on emerging technologies*

to build supercritical plants in Nagapatnam (Tamil Nadu) and Anugul (Orissa). “We aim to generate over 3,800 MW by 2015,” says Mahesh Bhandari, chief executive officer and managing director, NSL

Power. Adds Sanjay Chaturvedi, CEO, NSL Renewable Power: “We are concentrating on emerging technologies like wind and solar. We have 100 MW of wind power capacity in Tamil Nadu and Karnataka,

separate legal entities for the different businesses,” says Prabhakar Rao. “Each has great potential to grow.” In seeds, for instance, NSL is looking at becoming the first Indian company to exceed ₹1,000 crore in sales this year. The target for 2015 is to double this, in not only cotton seeds but also rice, maize, bajra, sunflower, sorghum, pearl millet, wheat, mustard and vegetable seeds.

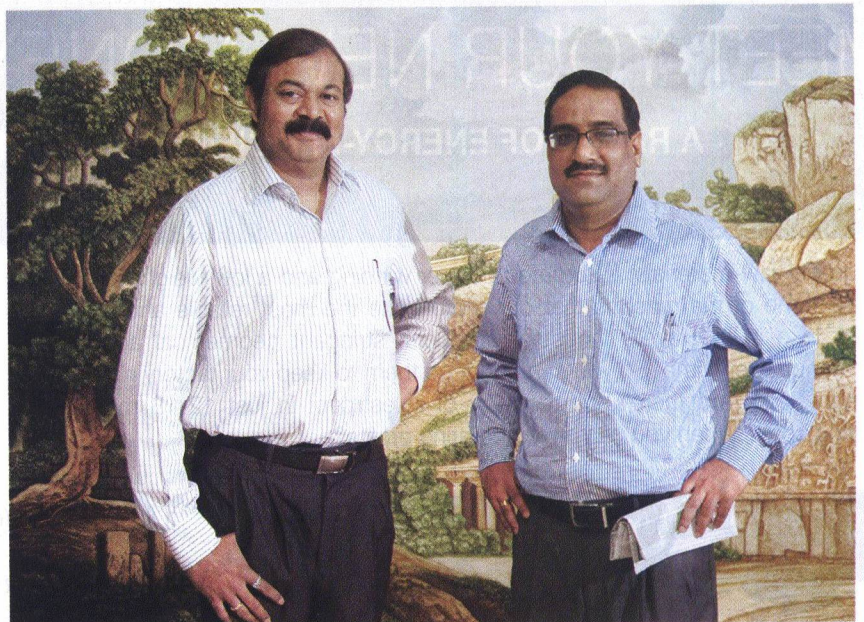
NSL Cotton, which prides itself on its organic, contamination-controlled and traceable product, is planning to more than double its turnover this year to cross ₹1,000 crore. In the next five years, it intends to cover every major cotton-growing region in the country, for which it has lined up an investment of ₹1,100 crore.

And NSL Textiles, which will have invested over ₹2,100 crore by 2013, has set itself the goal of becoming the world’s most integrated fashion designer – spanning every stage from seeds to its own retail marketing chain. The planned Constello stores will give the company greater flexibility and control over the brand, as

well as “a heightened ability to keep our finger on the pulse of the market”, its brochure says. According to Mangatani, the brand will have ‘critical mass’ once it crosses the ₹50-60-crore mark. “We hope to reach ₹500

crore in five years,” he says.

Also on the path to becoming one of the top three in its field is NSL Sugars, which believes its integrated plants will enable it to diversify and maximise its revenue base, giving it



*A.P. Rao and Vaidyanathan: in charge of 10,000 people and ₹3,500 crore*



Hari: high demand for sugar

Gone: executing big plans

which we will ramp up to 300 MW by end-2012 and 1,000 MW in 2015. We are also setting up a 20 MW solar project in Kutch, Gujarat." The company has four hydro-electric ongoing projects in Himachal

Pradesh, totalling 155 MW, and is developing biomass technology, too, he adds.

The group entered the sugar industry in 2003 because of its established expertise in agri-business, aiming to "play

the role of a game-changer". Today, it has five plants, with a projected total sugar refining capacity of 15,000 tonnes per day (tpd) by 2015. Focussing on integrated plants that also have power cogeneration and produce ethanol, it targets capacities of 550 MW and 1,700 kilolitres per day over the same time frame. "The demand for sugar is always higher than the supply!" explains Hari K.V., joint managing director, NSL Sugars. After buying or setting up four plants in Karnataka and Andhra Pradesh, the company has just acquired its fifth – a private unit in Beed, Maharashtra. It is also in the process of setting up a refinery to process raw sugar from cane-growing countries like Brazil and exporting it back, Hari adds.

Around the same time as it got into sugar, NSL also began buying land. "We made lots of

investments between 2004-05 and 2009 from the profits of the seeds business," Prabhakar Rao explains. "We have 1.5 million sq ft of office space in Hyderabad, mostly occupied by information technology companies," he says. "We plan to build 10 million sq ft here and in the NCR in the next four to five years." Pooh-poohing the poor conditions of the real estate market, especially in Hyderabad, the chairman predicts a boom when the Telangana issue is settled one way or the other. Adds Shrawan Kumar Gone, CEO, NSL Infratech: "We already have big multinational corporations like IBM and Wells Fargo occupying our SEZ here. Besides the planned IT SEZ in Noida, we are also into a residential project in Chennai joint development in Bangalore with local developers."

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the leverage to balance its product lines. NSL Infratech, for its part, offers spaces built in consultation with 'best-in-industry' global experts, is working on completing its five SEZs in Hyderabad, Chennai and the NCR, besides a number of retail, commercial and residential projects. In different places, it offers 'walk-to-work' homes, gold-rated green buildings, 100-per-cent power back-up, a car park for every 1,000 sq ft leasable area and building services for 24x7 hours operations.

The biggest business for the future, however, is the energy sector. "We will invest ₹5,000 crore in NSL Power through a combination of debt and equity," says Vaidyanathan. "We are in an advanced stage of tying up this money." With its background in the agricultural sector, its primary thrust has been in environment-friendly, renewable energy projects. "Renewables will play a big role all over the world, including India," says Prabhakar Rao.

"We also have two biogas plants at Nizamabad and Vijayanagaram

in Andhra Pradesh," says K.R. Rao. The company's 27.65 MW Jagalur wind farm received the Indian Wind Power Association's 'best operating' award in 2009-10 for Karnataka and Andhra Pradesh, presented at the international conference on 'wind energy 20 by 2020'. This was the second time for Jagalur, which had won the award for 2006-07, too.

### Energy business

Spreading its wings, the company has, through an overseas subsidiary, acquired development rights to set up a wind power project in Chile, one of the largest of its kind in Latin America with a potential of over 400 MW when fully developed. On five adjacent sites to be developed in phases, the project involves a total investment of \$650 million over a three-year period. "We are on the search for global opportunities in power," says Prabhakar Rao. "This will act as a springboard to capitalise the opportunities in the region." At home, it is looking at nearly 4,000 MW of wind, biomass, hydro-electric

and thermal power by 2015. It is also in the process of setting up 2,640 MW of conventional, coal-based plants.

The NSL group's Mandava Foundation is 'especially proud' of the contribution it is making in the transfer of knowledge to the farmer community. "It is an example of leveraging our core competence and paying back to society in with the body of expertise we have acquired over the years," says the group brochure. The foundation is also working in three other basic need areas – education, health-care and employment generation – in which it can impact society most significantly. Group founder Venkataramaiah, 80, told his company's magazine *Topseed* that his son had changed the fortunes of the company. His philosophy of "Don't let the farmer down... spend enough time in the fields to understand the ground better," has obviously been adopted by the son. Now that his grandson has also joined the business, Prabhakar Rao will need to see how his own vision is carried forward.

♦ SEKHAR SESHAN