# INDIA INC'S GREATEST TURNAROUNDS

CEOs of JSW Steel, Tata Steel, L&T, Raymond, and Religare Enterprises Share Their Financial Success Stories

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# FOREWORD

*India Inc's Greatest Turnarounds* seems to have genesis in a stark yet undeniable reality: failure is not the end, but rather a stepping stone towards redemption. Across India, numerous companies have transcended failure, crafting remarkable comebacks that not only revived their fortunes but also extended a lifeline to others in distress. Tales of adversity and resurgence intertwine to form a narrative of remarkable turnarounds, with lessons and inspiration. This book delves deep into the heart of these narratives, exploring the intricacies of financial and economic distress, strategic repositioning, and visionary leadership that drove companies from the precipice of collapse to the pinnacle of success. Through meticulous research and insightful analysis, this book illuminates the trajectory undertaken by iconic companies in their quest for rejuvenation.

In my professional journey, I have intimately encountered the tapestry of failure and redemption. Here, I endeavour to present my take on the incidence of failure, elucidating the concerns it spawns and the mechanisms in place to prevent and salvage it. In the grand tapestry of commerce we created artificial persons, namely, companies, to carry on our legacy forever. The company structure matured with time, acquiring attractive and powerful properties like separate legal personality, perpetual existence, and limited liability. These attributes offered significant advantages over other organisational structures, making companies the preferred business vehicle. The provision of economic freedom gave a fillip to organized economic activity. With the withdrawal of restrictions on size, businesses exploited economies of scale and scope. These promoted the exponential growth of companies, many of them growing larger, some of them beyond borders, with time.

In the contemporary landscape, companies have become an integral part of our daily existence, permeating every aspect of our lives. It is difficult to imagine life without them. They house, feed, clothe, and employ us. Moreover, they are custodians of the economy's resources, creating wealth and sharing the same among stakeholders. As growth engines, they hold the hope of prosperity for posterity. They often have organisational capital over and above their tangible assets. The closure of a company not only extinguishes this hope but also erodes organisational capital accumulated over time. It takes years of effort to bring up a company which can replace an existing one. The premature demise of many companies has the potential to precipitate economic destabilisation. Recognising their pivotal role in sustaining societal well-being and economic prosperity, several institutions have emerged to safeguard their lives.

Till a century ago, companies had lifespans that surpassed those of humans. Kongo Gumi Co. Ltd., a Japanese company revered for its temple construction expertise, succumbed to debt in 2006 after living a record 1429 years. There are a few thousand-year-old companies still around. They are rare surviving gems of a bygone era. A McKinsey & Co. study revealed a stark decline in the longevity of S&P 500 companies, plummeting from an average of 90 years in 1935 to a mere 18 years by 2016. Recent studies indicate that the average life of a publicly traded company, considering acquisitions, mergers, and bankruptcy, is about 10 years. The life of a company is more in danger today than ever before, despite the presence of institutional safeguards.

The life of a company has three enemies. The first is the enemy within, namely, internal discord among the stakeholders. A company is an amalgam of many stakeholders. Each stakeholder has a unique objective function, with a distinct set of rights, interests, and levels of engagement with the company. Consequently, conflicting agendas often arise, pitting stakeholders against one another and, at times, against the company's interests. This discord is exacerbated by the transient nature of modern shareholders, many of whom hold shares of the company for a fraction of a second, some of them abandoning ship at the faintest hint of trouble. The departure of a significant shareholder may orphan the company, begging the question: whose company is it anyway? In their drive to maximise their upside while enjoying limited liability, shareholders may inadvertently expose the company/society to unlimited liabilities. Examples are the Bhopal gas tragedy and the Satyam fiasco. A disruption in the delicate balance between the limited liability and the unlimited liability jeopardises the life of the company.

The state has instituted a comprehensive framework of institutional norms, collectively known as corporate governance, to safeguard the well-being of companies. These norms encompass a spectrum of measures, including the appointment of independent directors, oversight of key managerial personnel, regulation of related-party transactions, protection of minority interests, financial and secretarial audits, and the timely disclosure of material information. Additionally, corporate governance extends to matters of taxation, subsidies, and corporate social responsibility, ensuring that companies operate in alignment with broader societal interests. While these standards aim to harmonise and reconcile the diverse interests of stakeholders, some companies surpass the mandated norms, proactively adopting aspirational governance practices to fortify their resilience against existential threats.

The second and the fiercest is the enemy from outside, namely, the market. Every other company in the market is its predator: a company swallows another for its growth, through hostile or friendly takeover. Further, it is state policy to promote competition and innovation in the marketplace to drive growth. An efficient firm kills inefficient ones in competition. A company loses life when it fails to compete with its peers in the same business for reasons such as poor organisation, inefficient management, and even malfeasance. Moreover, the relentless march of innovation continually reshapes market dynamics, rendering established business models obsolete. This phenomenon, known as creative destruction, often destroys more companies than it creates! Additionally, external factors beyond a company's control, such as shifts in policy, resource depletion, market access restrictions, geopolitical conflicts, natural disasters, or unprecedented events like the Covid-19 pandemic can precipitate its downfall.

For a company to thrive in the long term, it must navigate the twin challenges of competition and innovation with finesse. If it lives too much in the present to survive competition, it may disregard innovation essential for long-term viability. Conversely, if it lives too much in the future to survive innovation, it may ignore competition essential for existence. Hence, maintaining the balance between the present and the future is imperative. Moreover, prudent risk management is essential; excessive risk-taking in the pursuit of survival can cut short its life. Strategies such as resilience building, adaptive measures, robust research and development initiatives, sustainable business models, visionary leadership, and readiness for unforeseen contingencies are indispensable in mitigating risks and ensuring longevity. However, it is entirely for the stakeholders to build the muscle of the company to withstand the onslaught of competition and innovation.

The third enemy is unfair battles in the marketplace. A company may not survive in a market where a dominant company resorts to unfair pricing; if its cost of capital is high as compared to another company that manipulates the market for its securities; if it dutifully pays corporate tax while another in the same business dodges taxes; if it fails to enforce contracts against other parties because of weak institutions, etc. The rule of law shields such law-abiding companies/ businesses from unfair battles. Its effectiveness, however, depends on the quality of laws (for competition, securities, taxation, contracts, etc.) and the state machinery administering these laws.

Hence, a company may get into stress/ fail if it lacks robust corporate governance, if it fails to navigate the landscape of competition and innovation, or the state fails to shield it from unfair market practices. Recognising these threats, the Indian state has proactively established institutional frameworks to facilitate corporate rescue and revival. From corporate debt restructuring to insolvency resolution frameworks, stakeholders are armed with a diverse toolkit to chart a course towards sustainable recovery.

Furthermore, these frameworks introduce new stakeholders if existing ones falter in their duties. They empower the board of directors, responsible for appointing and overseeing executive management, to replace it in case of failure, as outlined in contractual agreements. Additionally, shareholders, vested with the authority to elect directors to the board and monitor their performance, may replace them under the provisions of the Companies Act, 2013, should they prove ineffective. Moreover, a promising cohort of shareholders may even supplant the incumbent set in the dynamic realm of corporate control. Notably, the Insolvency and Bankruptcy Code, 2016 (Code) brings in creditors to rescue the company when shareholders have failed to guard its life.

The Code has emerged as a beacon of hope for failing companies. This enables creditors to rescue a company through a resolution plan. It confers extraordinary powers on them for this purpose: (a) they may seek the best resolution plan from the global market, in a significant departure from previous mechanisms that confined resolutions from existing promoters; (b) they may take and/or cause a haircut of any amount to any or all stakeholders as may be required for rescuing the company; and (c) the resolution plan may entail any measure(s)—a change of management, technology, or product portfolio; acquisition or disposal of assets, businesses, or undertakings; restructuring of organisation, business model, ownership, or balance sheet; strategies of turn-around, buy-out, merger, amalgamation, acquisition, or takeover; etc. Yet, some companies may be beyond repair and have to be closed. The Code facilitates the orderly liquidation of such companies.

Despite their apparent 'immortality', it is not uncommon for companies to face periods of adversity. However, proactive measures can prevent, postpone, reduce, or altogether avoid such stress. It is also possible to rescue a company from the brink of failure. It is not good either for the company or the economy to keep a company under stress for long, which only destroys value and heightens the risk of closure. It is also not good to stigmatise an honest business failure as it discourages entrepreneurial risk-taking. In such cases, entrepreneurs and management must acknowledge the reality and, if necessary, gracefully step aside, allowing others with the capability to salvage the failing enterprise.

Despite these interventions, not all companies bounce back. However, those that do, provide invaluable lessons for business leaders, policymakers, and aspiring entrepreneurs alike. The saga of JSW Steel, Tata Steel, L&T, Raymond, and Religare Enterprises, as illuminated in this book, serves as a testament to the indomitable spirit of Indian entrepreneurship. Each chapter unveils the strategic manoeuvres, innovative tactics, and unwavering resolve that propelled these companies toward unprecedented success.

*India Inc's Greatest Turnarounds* isn't merely a compendium of past triumphs; it's a manifesto of hope and possibility. It celebrates the unyielding spirit of innovation and the enduring legacy of those who defied conventional wisdom. As readers embark on this voyage of exploration, may these stories kindle a flame of inspiration, urging companies to embrace change, navigate challenges, and emerge stronger in the crucible of adversity.

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