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RS AGARWAL/EMAMI CHAIRMAN

## The inside story of the Zandu takeover battle

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KOLKATA

The management of Kolkata-based personal care products maker Emami Ltd valued the headquarters of Zandu Pharmaceutical Works Ltd in Dadar, Mumbai, at Rs350 crore when in June it announced its unsolicited bid to acquire a controlling stake in the 98-year-old herbal health care company.

That was at the height of the real estate boom. "I can't say how much the property is worth now," says Emami chair-

man R.S. Agarwal, who, despite the downturn in the economy, does not regret his decision to pay as much as Rs750 crore for a 72% stake in Zandu. "When you buy something, you buy for long-term value...being in a similar line of business, we knew the intrinsic value of Zandu."

Towards the end of May, Emami concluded a deal after protracted negotiation to acquire a 23.6% stake from Dev Kumar Vaidya and his sister Anita Vaidya, whose great grandfather Jugatram Vaidya

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**Road ahead:** *Zandu and Emami may be merged, says Emami chairman R.S. Agarwal.*

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founded Zandu in October 1910.

In keeping with Indian takeover laws, Emami made an open offer for 20% more, kicking off a battle with the Parikh brothers, who have been managing the operations of Zandu for years.

Four-and-a-half months later, the Parikh family gave up, and Emami concluded India's first hostile takeover in many years.

Zandu's former managing director Girish G. Parikh, who continues to be a director on the board of the herbal health care company, was not contactable.

In his first media interview since the takeover of Zandu was concluded, Agarwal said his sons, Harsh Vardhan and Aditya, who are directors of Emami, were at times sceptical about the price that Emami eventually paid for Zandu. "There was a lot of arithmetics, a lot of calculations," says Agarwal. But in the end he managed to prevail over his sons because of the support of his partner—Emami's co-chairman R.S. Goenka—who persuaded the Agarwal siblings to trust his judgment.

Edited excerpts:

**It must have been a game of chess that you played to oust the Parikh family from Zandu?**

Yes... They (Parikh family) had some friends in Gujarat—some big companies and industrialists. A company from eastern India taking over a company from western In-

dia...so there was to be resistance. They offered financial assistance to thwart our efforts. We knew they (Parikh family) would go for creeping acquisition, but we couldn't (buy shares from the market) as per Sebi (Securities and Exchange Board of India) rules. Then they approached CLB (Company Law Board) so that Emami couldn't get in. There was a lot of apprehension among the youngsters...we went on investing—Rs200 crore, Rs300 crore, Rs400 crore—and what if we got stuck in the end? But Zandu had too many brothers and partners (controlling the company)—at least eight-10—and they never got along very well.

Harsh was the main force behind the takeover. But after two-three months, I started talking to them (Parikh family) on phone. We told them 'what is the point of fighting and wasting time'. At one point, we even offered our shares (in Zandu) to them at a price which was 10-15% less than

what we were offering. But in the end, everything was settled amicably. All the while, we were discussing strategy (internally), and I used to have all my calculations written in a piece of paper. We used to meet (at times) at 8:30 in the morning to discuss strategy. It was such an innovative deal...someday it would be a case study.

**But don't you think you paid a steep price for Zandu?**

I never go by the price. When you buy something, you buy for long-term value...being in a similar line of business, we knew the intrinsic value of Zandu. We took over the company in November, and in the three-four months that we had this year we have changed a lot of things, and you can see the results. This year (fiscal 2008-09), Zandu will be making a profit of Rs30-35 crore, and next year it's going to be substantially higher (in fiscal 2007-08, Zandu posted a net profit of Rs16.5 crore). We are very comfortable with the kind of returns Zandu has started yielding.

There are a lot of valuable things in the company that they (Parikh family) were not able to exploit, but this company (Emami) will. Our calculations were based on what profit we could make in one year, two years, and so on.

Having acquired a large stake (23.6% from the Vaidyas) at a particular price (Rs6,900 a share) we knew the average would come down...so average calculation was done and our strategy was decided accordingly (Emami paid Rs16,500 a

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share to the Parikh family for their 18.18% stake and to acquire 20% more through the open offer).

It was not simple (though)... youngsters were concerned we were paying too much, but Goenka (who) has immense respect for me, told them they couldn't foresee everything that I could foresee. Finally the unit (Zandu) was taken over.

Another important acquisition was Zandu Foundation—it was not part of the company. The foundation has some labs and has done a lot of research and development. It is a very valuable asset. We are changing its trustees.

For a small company like ours, especially in these times, to shell out Rs750 crore is not a...joke. But fortunately the company could garner resources and pay everything.

**How much of the Rs750 crore came from Emami's own accruals and how much did you borrow?**

Major part came from internal accruals...say around 30% of the total money paid (or around Rs225 crore) came from debts. There were both short-term and long-term debts.

**So, what changes have you brought about in the operations of Zandu?**

Everything has changed... radical changes, and in all departments—HR (human resources), sales, logistics, packaging. They (erstwhile management) had invested a lot in installing SAP (an enterprise resource planning, or ERP, software). But it doesn't work. The new production unit in Pantnagar will start operating next year (in fiscal 2009-10), it should have started a year ago, but they did nothing. Manpower will be rationalized or made more productive. Radical changes are going to be made in the way products are branded. We are repositioning brand Emami and brand Zandu... They (the two companies—Zandu and Emami) may be merged, and Zandu and Emami would probably be divisions within the same company.

**We understand Zandu has a lot of real estate. What are you going to do with it?**

Real estate is in mourning now... I think it will remain like this for at least a year, may even last for three years. But yes... Zandu's office in Dadar... the value of that property alone is substantial. Must have