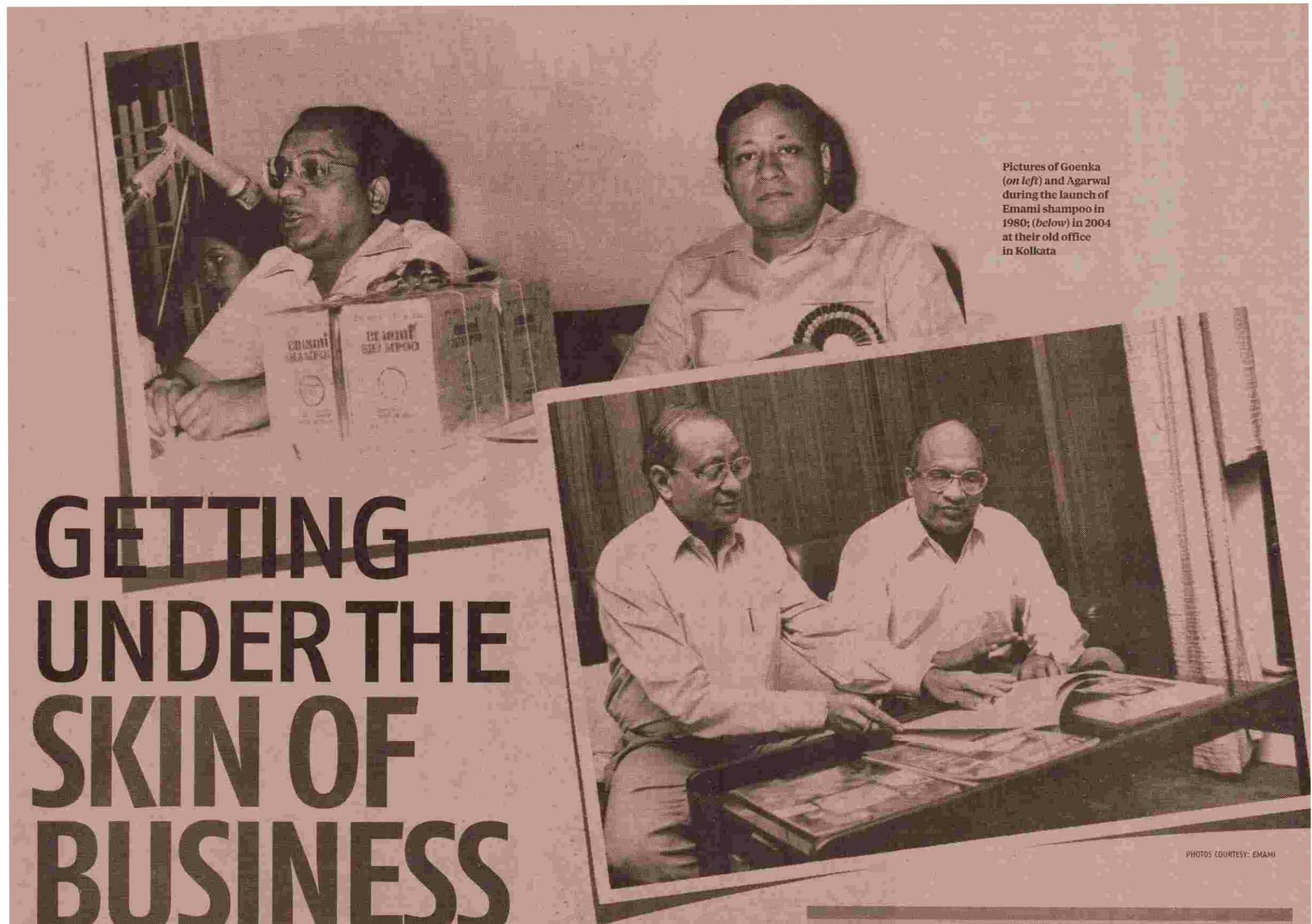


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Pictures of Goenka (on left) and Agarwal during the launch of Emami shampoo in 1980; (below) in 2004 at their old office in Kolkata

PHOTOS COURTESY: EMAMI

GETTING UNDER THE SKIN OF BUSINESS

This edited extract from Nikhil Inamdar's *Rokda: How Baniyas Do Business* recalls the initial years of precocious Radheyshyam Agarwal and Radheyshyam Goenka, the men who founded cosmetics company Emami with ₹20,000 and turned it into a ₹8,000-crore conglomerate

It was in class five that [Radheyshyam] Goenka joined Maheshwari Vidyalaya. He was one year junior to [Radheyshyam] Agarwal. A common friend of the duo, Hariram Poddar, who also happened to be Goenka's neighbour and Agarwal's classmate had introduced the two. They hit it off instantly and Agarwal soon started visiting Goenka's home more or less on a daily basis to tutor his junior on the school syllabus. Keshardeo Goenka's temper and obsession with discipline were legendary and kept the other Goenka children on tenterhooks. But for the Radheshyam duo, he had nothing but affection. He held a special soft corner for his son's friend and would feed him fresh kachoris which he loved to make himself.

In 1964, Agarwal passed his B Com degree and went on to pursue Chartered Accountancy, which he finished at the first attempt and with Merit. Goenka completed his B Com a year later, and went on to pursue M Com and LLB. Belligerent by nature, Agarwal too decided he needed to hone his legal acumen and joined Goenka to do law. ... St Xavier's College, where Agarwal had enrolled to do his bachelors, was then a snooty college for convent educated kids of the rich. Burrabazar kids from Hindi medium schools went to City College. But Agarwal was bent on breaking this tradition. He polished up his English with rigor and ensured he got a seat at Xavier's. The crowd there didn't accept the coarse Marwari lad with broken English initially. 'I had no wealth, no status, and no personality, but I could make anybody smile. I became popular in class because of my wit,' he says, ...

Goenka, meanwhile chose City College in the neighbourhood like other Marwari kids in those days. He has little memory of college, he says, except that he was an average student with not much of a flair for academics. 'Also, I didn't have the requisite marks to get into Xavier's,' says Goenka. 'How could you, with me as your teacher?' retorts Agarwal. It is my first brief introduction to the friendly squabbles the two indulge in every so often. They've been friends for 60 years and one often completes the other's sentence. By 1968, the duo had finished their education. Their real learning however, had begun many years earlier. ...

While still in college, the duo would spend hours in the second hand bookshops at College

Street pouring over books that contained chemical formulas for cosmetics. Their plan was to manufacture such products which they noticed were selling like hot cakes in Burrabazar. Agarwal and Goenka soon began dabbling in numerous businesses even before finishing college. From repackaging Isabgol and tooth brushes to trading in the famous Jaisore combs to manufacturing board games like Ludo, for which Agarwal would prepare low-cost, homemade glue and sit himself with workers to paste the boards, they tried their hand at a number of things. Despite being busy with the demanding college schedules, the duo would lug their goods on hand pulled richshaws, selling from shop to shop in Burrabazar. ...

But lack of capital always constrained their ideas and success continued to elude the duo as money was always in short supply. Their struggle continued for almost three years before they realized that without adequate seed funding their trade wouldn't flourish. And here's where Goenka's father Keshardeo came to their rescue. The generous patriarch gifted them a princely sum of ₹20,000 — a handsome amount in those days and forged a 50:50 partnership between his son and his friend. That is how Kemco Chemicals was born. ...

Operations began with a small manufacturing unit at 48, Muktarum Babu Street in the vicinity of the palatial Marble Palace in North Calcutta. The ₹20,000 lifeline that Keshardeo had extended to Goenka and Agarwal had boosted their spirits, and even while the environment around them was anything but ebullient, it was such adversity — that threatened to put many age old companies out of business — that would provide them with their biggest opportunity a decade later — the buyout of Himani in 1978. The early days though were anything but smooth. Within a year of founding Kemco Chemicals, Goenka and Agarwal saw their capital being completely wiped out. The business ran on credit and as luck would have it, customers conned them even without their knowing it. 'The biggest lesson from this setback was the need to keep proper accounts. We'd do our daily calculations but never keep a tally, and that did us in,' says Goenka. Shamefaced and filled with remorse, the duo went back to

Keshardeo to tell him they wanted to wind up. But he thundered at the mere suggestion and told them he was willing to give them ₹1 lakh more, but there was no question of running away. And so, with their animal spirits reignited and better judgment of how to approach things, the duo got back into business. ...

Kemco Chemicals saw considerable success between 1968 and 1978. To begin with, the company started repackaging cheap cosmetics like Bulbul and Kanti Snow, Pomade or the poor man's Vaseline — products that had great patronage in the nascent cosmetics market of the country. But margins were low and the duo would sell full cartons to wholesalers in Burrabazar for as little as ₹36 a gross or ₹3 a dozen. A couple of years passed, but Kemco's expansion was chugging along at snail's pace. Around this time both Agarwal and Goenka also got married — to Usha and Saroj respectively, and with that came added responsibilities. The pressure to make more money was mounting and so when an opportunity came to work for Calcutta's then premier corporate house — the Birla Group, the two couldn't let it pass. Goenka would go on to head of the Income tax department at the K K Birla Group and Agarwal would become Vice President of the Aditya Birla Group by the time they had resigned five years later. ...

Being voracious readers and now also exposed to the workings of a large corporate set up like the Birla Group, Goenka and Agarwal realized that if they were to enter the big league they would have to differentiate on the product line, think out of the box and improve their margins. There was no alternative to it in a hugely crowded market consisting of a myriad of unorganized competitors, all



Goenka (top) and Agarwal realised that if they were to enter the big league they would have to differentiate on the product line, think out of the box and improve their margins

THE ZANDU TAKEOVER

Emami had already acquired a minority stake of 3.9 percent through the open market to demonstrate its interest, but the constant back and forth between the Vaidyas (brother-sister stake holders) on the most minor issues led to a considerable holdup in its bid to buy out the duo's 24 per cent stake. It took between September 2007 and May 2008 for the company to finally complete the acquisition, for which Emami paid ₹130 cr or ₹6,900 per share. As a 27 per cent shareholder in Zandu now, it was incumbent upon Emami to make an open offer for another 20 per cent stake in the company, as per the Takeover Code rules in the country. Once Emami made a public announcement to this effect, it set the stage for a battle royale with the Parikhs. Through their lawyers, the Parikhs instantaneously alleged violation of SEBI's takeover regulations and argued that they had the first right of refusal over Vaidyas' decision to sell their shares. ...

Within four days of Emami announcing its open offer, the Zandu board also sent a notice to the Bombay Stock Exchange to discuss a preferential allotment to the promoters in a bid to reduce Emami's stake. Emami responded summarily stating that as a large shareholder of Zandu its consent was needed before a preferential allotment was done. ... In the meanwhile the matter went to SEBI, which transferred it to the Company Law Board (CLB). The Parikhs decided to take the legal route rather than sitting on the negotiating table with Emami, and moved the Bombay High court. Agarwal, who along with his son was the key negotiator in this deal, had several meetings with the Parikhs, giving them three options to choose from — sell their shares to Emami, buy Emami's stake or agree to work as partners. Neither of these options were palatable to the Parikhs, who didn't quite get along with one another and didn't agree on anything. ... Luckily for Emami, the Parikhs couldn't prove their ROFR (right of first refusal) in the courts. ... By September 2008, SEBI cleared Emami's open offer as well, leaving the Parikhs with no option but to enter talks for a settlement. Parikhs agreed to sell 18.18 per cent of their stake in Zandu to Emami at a price of ₹15,000 plus a non-compete fee of ₹1,500 per equity share. Emami also acquired through open market purchases another 28.5 per cent, taking its total stake in Zandu to near 71 per cent. All of this took the overall acquisition cost of the deal to a whopping ₹730 cr. It was an audacious deal to put it mildly.

offering the same kind of products. In those days there was a craze for imported cosmetics and foreign sounding brand names. Under the License Raj there was a ban on such discretionary items, but a big latent demand for them nevertheless. Most people couldn't afford the imported versions because of a 140 per cent excise duty that they carried. The duo decided to cash in on this opportunity and launched brand Emami. 'It didn't mean anything but sounded Italian,' says Goenka. The cold cream, vanishing cream, and talcum powder they launched under the new brand got such a tremendous response from the market that it took no time for Emami to get established as a household name. There were a couple of things they did right. Kemco didn't have a penny to spend on grand advertising and promotional activities like its rivals Pond's and HUL. So instead what it did was sold old wine in a new bottle. It revamped the packaging entirely.

Back in the day talcum powders would be sold in tin containers with the brand name directly screen printed on the tin. There was nothing attractive about it. Emami instead, introduced for the first time in the Indian market, blow molded plastic containers with photo tone labels. The beautiful ivory colored container with golden labeling looked like it had been shipped from abroad. The fact that the Indian government at that time didn't mandate an MRP (Maximum Retail Price) to be printed on the container helped them tremendously. Such a hit was their product — particularly the talc — that shop keepers would be scrambling to keep it in stock. 'If Pond's gave them a 10 per cent retail margin, our talcum powder would fetch

them spreads of up to 400 per cent because people thought the product was imported,' says Goenka. Goenka's brother Rajkumar, who now looks after the perfumes division of the brand, narrates an interesting anecdote. As a young boy, when he took the first batch of twelve Emami talcum powders to be sold in Calcutta's Bagdi Market and quoted a price of ₹60 a dozen, the owner of Maheshwari Stores almost threw him out. 'You think you are now the owner of Nylcil that you are quoting such a price?' he asked Rajkumar in Hindi. 'Just keep it for a day Malik, along with our toothbrushes,' the boy pleaded to him. Barely a day later 'Malik' sent for Rajkumar and asked for another batch. The product was flying off the shelves and within three-four days several other retailers in the vicinity were asking for it.

Emami's success stunned the biggies in the market like HUL, who Rajkumar says, made discreet enquiries on how blow molding was done. One of their company representatives even came down to Emami's non-descript factory to get a glimpse of what this new upstart of a brand had up its sleeve. The company's other products also similarly gained traction. 'The vanishing cream gave Pond's neck-to-neck competition within months and our market share went up to 25 per cent in a couple of years making us market leaders in the segment. Our cold cream sachets were also a big hit,' says Agarwal. This early success taught the duo invaluable lessons on the importance of branding and packaging, areas that would form the core of Emami's success in later years.

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