





# Best of the Best



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by *The Smart Team and the ISB Team*

Once again The Smart Manager teams up with Indian School of Business, Hyderabad to bring you our path breaking survey of India's truly world class managers. Our unique framework and specially developed methodology has helped us identify the 25 smartest managers in India over the last three years. These in-depth profiles look at their strategies and leadership styles to understand the secrets of their success. Read how these achievers have shaped their destinies and not let destiny shape them.

Managers are the best teachers of managers and role models are important for CEO's in the making. We hope that the best of the best study will be inspiring for the aspiring...



# om prakash lohia: *boxer*



## sparring with heavy weights

When market forces are working against you, the secret is to wait for success while improving efficiencies continuously.

**f**or three years O P Lohia, Chairman and Managing Director, has struggled against unbeatable odds to establish his company as a profit maker. It doesn't help that he is competing against market leader Reliance Industries Limited (RIL) that is known for its aggressive attack on competitors, not to mention its deep pockets. Regardless of this Lohia has managed to stay in the reckoning through sheer tenacity and perseverance. Today he clearly states, "One thing is sure. In the long run, nobody can ignore us." Today, Indo Rama Synthetics Limited (IRSL) is the country's largest dedicated polyester manufacturer with an integrated manufacturing complex at Butibori, near Nagpur in Maharashtra producing around 350,000 TPA of polyester staple fibres, filament yarns, textured yarns and textile grade chips.

But to get to this position it took a lot of hard work and some careful relationship management. Back in 1989, Indo Rama Synthetics Limited (IRSL) commenced operations with 21,000 spindles, near Indore. Later Lohia established a polyester staple fibre plant in Butibori near Nagpur and subsequently increased the capacity to 250000 TPA. He had plans of backward integration into Purified Terephthalic Acid (PTA) production, but after realizing

it may not bring in the desired results he sought, he dropped the idea. Also there was a overnight collapse of the global polyester market and margins decreased from over \$1000 a tonne to about \$200 a tonne. Six years ago in 1999, the company's books were showing losses worth over Rs1.5bn.

With the collapse in demand, most medium sized producers chose to cash out and sold their businesses. Raymond Synthetics, Orissa Synthetics, and India Polyfibres all sold out to RIL. Lohia however decided it was not the end of the road for him. He decided to contend with RIL for market share and ensure that the industry did not rely on just one supplier. He also lined up with major players like Dupont, Toyobo, Zimmer, Thermax, Wartsila, etc, for technology and equipment supply. His tenacity paid off. By 2003-2004 polyester demand rose to 1.65mn tonnes, and market conditions improved. By that time Lohia was perfectly set up to take maximum advantage of them. Plus since margins continued to be low at \$200 a tonne, this acted as a barrier to new entrants. So Lohia was able to benefit further by raising capacity utilization. According to Lohia, the high capacity he set up was crucial to the company's survival as marginal players got wiped out. "People didn't believe me earlier and said I will be wiped out. Internally, too, there were doubts on our survival. But we never gave up," he says. Today IRSL is the second largest player in the industry with market share of 25% and its Nagpur plant is operating at over 100% of capacity, reaping profits consistently. What's more, IRSL's return on capital employed - a good measure of how efficiently a business is running - is 18.75% for the period 2002-2004.

One of the reasons for the turnaround was also due the swift revamping of the company carried out by Lohia. In 2001 he introduced a massive cost reduction exercise and targeted new raw materials. High cost borrowings were substituted with low cost borrowings and working capital needs were brought down. As a result interest cost came down 33% from by Rs530mn. In addition Lohia also brought in the professionals. He outsourced his entire IT operation to Accenture to be able to focus on core functions. "By outsourcing non-core transactional functions and allowing Accenture to manage these, we are achieving our objective of focusing on our core business," Lohia explained. This went a long way in improving returns.

Lohia also roped in Ernst & Young to recommend the "best ways in which the existing businesses of Indo Rama could be structured and exploited to its fullest potential." Based on their recommendations Lohia undertook a massive corporate restructuring program. On 31 March 2003 he demerged the company and created two focused organizations - one in the area of fibres, Indo Rama Synthetics and the other in the area of yarns, Indo Rama Textiles. Commenting on the demerger and his expectations of the future, Lohia said, "Strategically we had to demerge our operations in anticipation of a rapid change in our markets. The future should see continued growth and a steady improvement of earnings." And Lohia's decision to split the business proved to be right. By 2002-2003 the combined operations had registered a growth of 221%.

Then with the world market in polyester due to open up post 2005, Lohia went about expanding capacity. "We

### smart achievements

- Turned around the company and reported a net profit of Rs2,526mn on a sales of Rs22,988mn for FY03-FY04 against a net loss of Rs76.5mn during 2000
- Acquired an integrated bottle grade PET resin manufacturing facility in the US in a deal worth over Rs2bn along with another Lohia Group company in South-East Asia to gain a foothold in the \$8.8bn global PET resins market
- Forged an alliance with German construction and engineering company, Zimmer AG, for its Rs9bn polyester expansion project in Butibori, Maharashtra. This expansion project aims at doubling the polyester production capacity from 800 tonnes per day to 1,600 for both polyester staple fibre and partially oriented yarn
- Demerged the spun yarn business in 2002 to facilitate faster growth
- Developed leaders such as: AK Chadha, President Polyesters

*with the DEMERGER, we provide an OPPORTUNITY for those investors who are with us to choose between PETROCHEMICAL play and TEXTILE PLAY*

foresee great opportunities for India to take part with the phasing out of quotas from 01 January 2005," Lohia exclaimed. In January 2004 he forged an alliance with Zimmer AG, a German construction and engineering company for a Rs9bn polyester expansion project at his plant in Butibori, Maharashtra. Lohia believed that the expansion was imperative because the plant had been running at over 100% capacity in the previous two years. The expansion would double the Indo Rama's polyester staple fibre and partially oriented yarn producing capacity from 800 tonnes per day to 1,600. As Lohia says, "The polyester expansion project is in synergy with our focus on making our operations competitive and global scale." When Lohia finishes his expansion it will make IRSL's Butibori plant the largest single location plant in the country and one of the largest in the world.

Of the total funding of Rs9bn for the expansion Lohia raised Rs2.86bn from internal accruals and the balance as long term loans from international institutions like DEG and IKB from Germany and others. "With the signing of the IKB facility agreement, we have formally achieved the financial closure of the project and are now in a position to put in place state-of-the-art, best-in-class and totally automated production facilities to combat global competition," Lohia explains.

Meanwhile Lohia has also been launching a number of initiatives to transform Indo Rama into a global player. Last year he introduced CRM and developed a single point solution to any problem related with any of Indo Rama's product. He also launched an On Time In Full (OTIF) program. Under this program orders were serviced in full truckloads within 24 hours of placement with a maximum

turnaround time of eight hours. Over 95% of Indo Rama's customers benefited from this program. In addition Lohia also started online sourcing of materials and Indo Rama became the first company in the textile value chain India to source about \$5mn across 280 line items through seventy online projects. This process enabled Lohia to rationalize his supply base and bring about transparency." The online sourcing process really works and is an effective mechanism to obtain market prices and deliver tangible savings to the bottom line," Says GP Bhatia, President and SBU Head, Polyesters.

The other aspect of Lohia's strategy to beat competition is to focus on the export market. In line with this strategy in April 2003 he acquired an integrated bottle grade PET resin manufacturing facility in the US in a deal worth over Rs2bn along with associate companies Indo Rama Thailand and Indo Rama Indonesia. This acquisition gave Lohia a foothold in the \$8.8bn global PET resins market. Explaining the rationale behind the acquisition, Lohia said, "That the PET business brings a lot of synergy to the company's current polyester fibre and yarn business." Now with a US company in his kitty, Indo Rama has better exporting opportunities in the US markets.

Meanwhile he is also busy firing up further expansion plans. "Success in the polyester industry will lie in scale economies and process efficiencies. The timing of our expansion project, therefore, will be particularly advantageous because we shall be moving double the through-put from a world class plant in 2006, at significantly lower costs, to service a downstream textile sector that will witness extraordinary growth in the domestic and global markets," he explains when discussing IRSL's future growth.

		<b>INDO RAMA</b>	
Name	Om Prakash Lohia		
Age in 2005	56 years		
Education	Graduated from the University of Calcutta		
Mission/Vision	"To be the most admired polyester company in the world"		
Company	Indo Rama Synthetics India Limited		
Designation	Chairman & Managing Director		
Tenure in current position	1989 to today		
Tenure in company	16 years: since 1989		
Experience	Over three decades of experience growing the family business		
World class competency	Timing and persistence		
Salary	Rs6,575,000		
Google hits	388		
Number of employees	1,750		
Contact	tenacity@capacity.com		
<b>company performance FY02 - FY04</b>			
Revenues	Rs16.63bn	RONW	24.19%
Net profit	Rs1717.1mn	Growth rate	7% CAGR
Net profit margin	4.81%	ROCE	18.75%

## leadership style

At IRSL Lohia is trying to inculcate a culture of professional management, transparency and integrity in the family run business. Nowadays, he carefully selects employees after putting them through rigorous processes. Continuous personal and professional training in the forms of workshops, seminars, talks, is a regular occurrence at IRSL. In 2002 he even put in place a remuneration committee to review and recommend payment of annual salaries, commission, service agreements and other employment conditions after taking into consideration remuneration practices followed by companies of similar size and standing in the industry.

At the same time, Lohia is not one who believes in having control over every aspect of the company's functioning. Recently in an attempt to make the company more efficient he has outsourced all his IT and finance requirements to Accenture so that the management team at IRSL can totally focus on competencies like marketing and business strategy that are its strengths.

Lohia is also good at managing relationships. In 2000 he managed to negotiate a long term contract with competitor, RIL to buy PTA from them. "It was a relationship building measure to say how much faith Indo Rama had in them. That gave stability to the market," says Lohia. It also made IRSL Reliance Industries' single largest customer of PTA. A good move between two erstwhile competitors.

But while may be good at keeping RIL at bay, it is Lohia's grit in being able to withstand difficult conditions make him a stiff competitor. Lohia not only withstood the Asian crisis when the polyester market collapsed, he has also surmounted several hurdles such as delay in getting clearances and labor unrest at the Butibori plant to pull the company to its current position of strength. One way he manages this is that Lohia does not allow company morale to drop. Over the years he has realized that addressing the emotions of employees can go a long way in ensuring that the company survives downturns in the market or any other problem. ■

*Jennifer Netarwala & Poomima Subramanian*

## smart management

 *Three skills that you think are imperative to be a successful leader in India?*

The ability to:

- 01** articulate a broad, over arching vision
- 02** communicate this throughout the organization with passion and credibility
- 03** relentlessly focus on execution of tasks aimed at realizing this vision

 *A leadership challenge that you faced and how you overcame it?*

During the late 1990's, the polyester industry was faced with declining realizations due to tumbling crude oil prices. For Indo Rama this period was also a time to service high cost debt taken on to set up our Nagpur facilities.

We were able to overcome these pressures by focusing on relentless cost control, process innovation and superior customer contacts. It was particularly crucial to take the whole team along in those difficult times but everyone rallied around.

 *How do you resolve conflicts?*

By patiently listening to both sides and allowing the logical conclusion to emerge. Sometimes, however, the leader has to step in and give a decision which then becomes binding.

 *One thing you would change about your management style is?*

Process orientation is an important attribute in a leader but the people aspect should be given higher weightage. Emotions need to be accounted for.

 *The thing you love most about your job is?*

It helps me build something more than just another business. It allows me to help people grow and also to give something back to the industry and country from which we draw our sustenance.

 *Your favorite management guru is?*

C K Prahalad.