Bigger, faster, better

Something out of nothing

India's leading industrialist on his plans for a nation, and a company, on the rise **Mukesh Ambani**, the chairman of Reliance Industries, aims to reinvent his petrochemical giant as a retail powerhouse, catering to India's booming consumer class. He spoke to Newsweek's **Sudip Mazumdar** and **Ron Moreau** about India, Reliance, and the family feud that recently broke the conglomerate apart.

Newsweek: You say India's competitive advantages are globalization, democracy, the ability to adapt to technology, and demography. Starting with democracy, doesn't it slow growth?

Mukesh Ambani: Sure, but increased aspirations are also driving growth. Politicians used to tell me: "We sell dreams to people that we knew we'd never be able to fulfill." Today, the mind-set of these politicians has changed. They genuinely believe we have an opportunity to substantially alleviate poverty by 2030.

How does technology fit in?

We are using new technologies in meaningful ways. To build our new refinery in 60 percent of the time it took to build our first, we are training 20,000 people in a new generation of welding technology in six months. This is where demographics comes in. We have 650 million people who are below their early 30s, while the U.S. and Europe face a shortage of skilled workers. A billion people used to mean lots of problems. Today I see a billion people as a billion potential consumers, an opportunity to generate value for them and to make a return for myself.

How do you motivate poor farmers to join your new farm-to-retail network?

We will work with farmers to get them to increase their productivity and produce the right products of the right quality. This also requires a major investment in technology because there are minimum import standards (overseas). We are also creating something that is totally missing in India: an efficient distribution system, linked to supermarkets across the world. This will generate up to 1 million new jobs and make us the largest private-sector employer in India.

What drives you?

In my father's language: "To create something out of nothing." That possibility exists in India even in old-world sectors like agriculture.

Is this an agrarian revolution?

Absolutely. Reliance is involving itself in agriculture in a big way. This will help to create a second green revolution at a time when energy and agro are converging. Oil is now at $70 a barrel, (but it's) a finite asset. We need a fallback position. We are looking for more gas and oil but we are also trying to grow our own energy. We think this has the potential to change the world.

How disruptive and dispiriting was the feud with your brother?

Fundamentally we had different approaches. My view is to give everyone the space to grow in his own way. When you see restructuring or separations in a family (firm), value has almost always been destroyed. This is the first case where value has been enhanced. In that way it has been a win-win ending.

Mukesh Ambani, the head of Reliance Industries, believes that he can revolutionize India's agricultural sector with an ambitious and audacious plan that will lift the country's 100 million small farmers out of poverty and put them on the path to prosperity. This Newsweek cover story, which we reproduce here by special arrangement, tells the story of Ambani's visionary scheme to cut out the middle-man and to create an efficient, up-to-date and fully integrated farming and retail sector that will put more money in the hands of farmers and provide consumers with cheaper and better produce.

RON MOREAU AND SUDIP MAZUMDAR

MUKESH Ambani has been India's Mr. Big for a long time. By all accounts, he is the country's most influential private citizen, and the businessman who thinks bigger than the rest in this rising economic superpower. He was all that even before a bitter internal feud led to a split in his family conglomerate. The breakup, finalized in January, left Mukesh in control of the larger (and largely petrochemical) share, Reliance Industries, and that behemoth has seen its fortunes soar ever since. It is now India's largest private-sector enterprise by any measure: revenue ($20 billion in 2005), profit ($2 billion), or share of Indian GDP (3.5 percent). Last week its stock closed up 15 percent since January, making Reliance India's biggest company by market cap (about $35 billion). Mukesh, who was already the world's 38th richest person before the split, according to Forbes, is now considerably richer. He says that while most family empires destroy wealth when they divide, the parting of the Ambanis was a "win-win" proposition.

Now, Mr. Big's ambitions are bigger than ever. Since the breakup, Ambani, 49, has finalized plans to invest more than $11 billion over the next decade to build two new satellite cities outside creaking, overcrowded Mumbai and Delhi. He foresees these metropolises emerging within just four years, each with a population of 5 million people making $5,000 a year, on average (or seven times India's norm), and hosting top multinational companies. And that is all pretty simple -- a development on steroids -- compared with the idea that really gets Ambani going.

Ambani's favorite scheme aims to revolutionize in one swoop two of India's largest but most backward sectors: farming and retail. Despite boom times, India is still a nation where 100 million mostly small farmers work with ox and plow, where 96 percent of retail stores are mom-and-pop shops and most of the roads between farm and store are mud tracks. Ambani plans to invest $5 billion by 2011 to put both the farms and the stores on the road to modernity, connect them through a distribution system guided by the latest logistics technology, and create enough of a surplus to generate $20 billion in agricultural exports annually.

In China, these plans would be hatched by the Communist Party. In India, the government is neither visionary nor efficient enough. But Mukesh Ambani is both. "This new business model excites me the most," said Ambani, wearing a white polyester-blend, safari-style shirt and dark blue slacks, in an exclusive interview in his Mumbai office recently.

Ambani is in many ways the enthusiastic extreme in a booming India, which has seen an explosion of entrepreneurial energy every time it opens a new industry to competition. The Reliance conglomerate got its start as a family textile business in 1966, and has grown in spurts, often triggered when the government released its grip on one sector or another. Mukesh Ambani's new cities were born, for example, from a recent reversal in the attitude of both state and federal governments, which are now willing to give private businessmen control over huge projects. "Can you imagine the change in mind-set?" he says. "The government is ceding its powers."

Reliance has always had a complex relationship with the government. In a sea of family monopolies, it was a genuine start-up. Yet it quickly acquired deep and sometimes murky connections with politicians, who have often helped Reliance along the way. Mukesh retains the extraordinary clout of his late father, Dhirubhai, the company's founder. But many who have dealt with him say he has also created a company that succeeds based on merit, not political good will. In that sense India's complex and controlled reform process has been perfect for market-savvy insiders like Ambani.

Ambani is not the only major Indian entrepreneur who sees India's farmers as an army of opportunity, either. Others are investing heavily in fruit and vegetable exports to Europe, information services for farmers, and consumer credit in the countryside. What unites them is both pursuit of profit, and a perhaps uniquely Indian mission to spread the wealth, which is arguably becoming a business necessity in a democracy whose growing income gap could prove explosive, particularly for the superrich. What distinguishes Ambani is the sweep of his plans, and a track record for making big projects happen. "His genius, his strength, is that he's enormously good at executing large projects," says Nandan Nilekani, the CEO of Infosys, India's huge IT company. "He is able to assemble large numbers of people, the project-management skills, the capital and then execute."

Ambani wants to build a chain of both small and supersize stores across India, creating 1 million jobs and reaching $25 billion in annual sales, all by 2011. If his plan succeeds, he says, consumers will get fresher food at lower prices, rural incomes will soar, farmers will become active consumers, and Reliance will become "a WalMart in India." The agricultural export boom will bring India's farmers into the global economy, as IT has done for its college grads. "We are rebalancing the world," says Ambani. "We are in fact lucky to be at the right place at the right time, contributing to our self-confidence as Indians. That's what energizes me." It's a vision in which everyone wins, which helps explain the silence of any doubters.

They were not so silent earlier. Mukesh Ambani got his start implementing his father's dreams. In 1980 Dhirubhai summoned Mukesh back from his MBA studies at Stanford to begin a risky attempt at "backward integration" of its textile mills. The plan was to move from sewing clothes to creating the fabric, and eventually refining and pumping the oil from which synthetic fabrics are made.

At almost every step, naysayers would dismiss Ambani's plans as too grand for the Indian market. Mukesh first took charge of building a polyester plant at Patalganga, with an annual capacity of 10,000 tons at a time when India's demand was only 6,000 tons, and got it done in just 18 months. After Dhirubhai was hobbled by a stroke in 1986, Mukesh became a more nearly equal partner and was once again manager-in-chief when Reliance built a petrochemical plant to feed the Patalganga complex. "The son learned at his father's feet how to think big," says Vallabh Bhanshali, a Mumbai investment banker.

By 1996, the Ambanis were launching the next step in their grand plan: an oil refinery. Mukesh lived in a shipping container at the arid site in Jamnagar, 850 kilometers northwest of Mumbai on the Gulf of Kutch, while managing a work force of 80,000 and shuttling back to Mumbai in a small plane to consult with his invalid father and answer the critics, who kept asking: "What does Reliance know about refining?"

The Jamnagar project would set the pattern of sharp attention to detail, executed at breakneck speed, for which Ambani is now famous. He and his experts looked at 2,400 configurations for the refinery, sweated over every detail, yet finished in just three years. Jamnagar is now the world's third-largest refinery, and can turn crude into gas for cars or aviation fuel for $2 or $3 less per barrel than its closest Asian rival, a plant in Singapore. "We wanted and got an elephant that could dance to the tune of any market," says Hital Meswani, a longtime family friend who heads the refining operation.

Soon after the plant came online in 2000, India not only stopped importing refined oil products, it started exporting enough to more than pay for its crude-oil imports, becoming a net energy exporter for the first time. While other nations like Angola and Turkmenistan have achieved a similar turnaround, they did it by simply exploiting existing oil reserves -- not by creating an industry from nothing, as Ambani did for India.

Soon, Ambani plans to break ground on a $6 billion expansion that will make Jamnagar the world's largest refinery, capable of processing more than 60 million tons of crude oil annually. Meanwhile, he has completed the "backward integration" of Reliance through an oil and gas exploration company that has hit a potentially huge natural gas reserve off the east coast of India, and is now spending $1 billion annually to pursue sites too remote for major oil companies, including three in Iraqi Kurdistan. "Mukesh wants to take risks," says PMS Prasad, president of the search company, Reliance Petroleum.

Dhirubhai did not live to see this moment. He died in 2002, setting off a power struggle between Mukesh and his younger, more flamboyant brother, Anil, 47, that became a tabloid sensation and prompted speculation that Reliance itself might not survive. Mukesh pushed ahead during this period, taking advantage of the deregulation of the telecom sector to launch Reliance Infocomm in 2003, which quickly became the third-largest telecom in India. Mukesh felt a special attachment to Infocomm because it realized another dream of his father's -- cutting the price of a phone call down to a penny a minute in India.

A year ago, with Reliance stock faltering, the matriarch of the Ambani clan stepped in to resolve the feud by dividing the conglomerate in two: the majority share ended up in Mukesh's hands, but Anil got Reliance Infocomm as well as Reliance Energy (electric power) and Reliance Capital (finance). "We are not crying about the three sectors we lost," says Anand Jain, Ambani's friend from their grammar-school days and head of Reliance's new cities project. Jain points out that within one month of the settlement Mukesh was rolling out three new projects, including the new cities, the farm-to-retail plan, and a related plan to foment "a second green revolution" in biofuels.

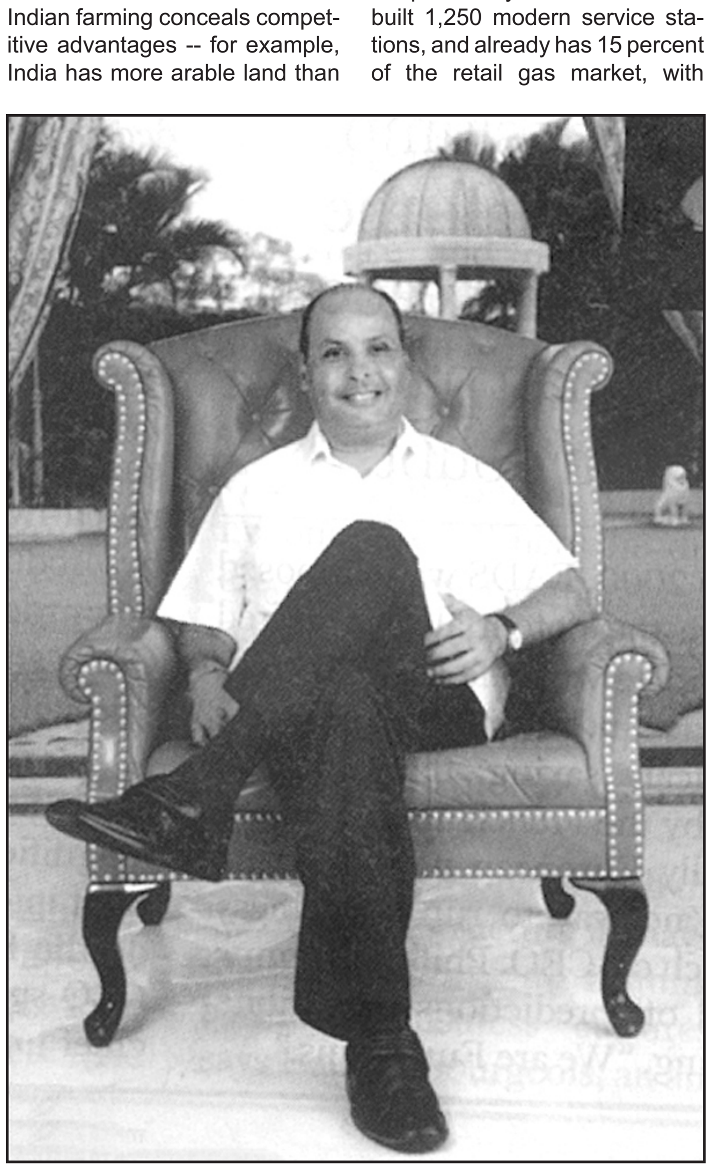
The Indian market is smiling on all of Mukesh's schemes. The three companies under his control have more than $22 billion in annual revenue, but 90 percent of that comes from Reliance Industries, which is entirely in petrochemicals. No doubt high oil prices have helped push up Reliance's stock price in recent months, says Ambarish Baliga, a vice president at Karvy Stock Broking in Mumbai. "But Reliance's strength is Mukesh" and the consensus view is that Reliance Industries will thrive even if oil prices fall because retail is "the main story going forward."

The question that some Indian businessmen ask, in private, is whether Ambani can really translate the model he used to build refineries so successfully to all his new projects. While Reliance touts its new business teams as top-flight, many old family friends remain in the upper ranks.

They are, however, as meticulous as ever. The farm-to-retail team is researching every step of the plan, from vegetable growing to hypermarket versus mom-and-pop retailing. The good news is that the backwardness of Indian farming conceals competitive advantages -- for example, India has more arable land than any other country, and spans climate zones ranging from alpine to tropical that can grow any cash crop. The bad news, says Ambani, is that "the whole supply chain is totally disorganized." Because of a lack of storage, refrigeration and transportation, some 40 percent of India's fruit and vegetables spoils before reaching market.

To transform Indian farmers into quality suppliers for his new retail chain, Ambani plans to create 1,600 farm-supply hubs across India, providing technical know-how and credit, selling seeds, fertilizer and fuel, and buying produce. He also plans to build some 85 logistics centers to move food to retail outlets and to ports and airports for export. Reliance is gearing up to train tens of thousands of new employees in the next six to eight months to do everything from erecting prefab warehouses to transporting fresh produce. Even Reliance's admirers note that with little experience in farming or retail, Ambani is taking his biggest risks yet. "There will be mistakes," Ambani admits. "But we are not scared. We will correct our mistakes fast and move on."

In a sense, Ambani's basic bet is on the future of the Indian market and its 1 billion consumers. This is virgin territory, in which the 96 percent share held by 12 million family-run shops is high even compared with China (80 percent) or Thailand (60 percent). That makes it a relatively easy market to conquer. In the past two years Reliance has built 1,250 modern service stations, and already has 15 percent of the retail gas market, with plans to double the number of Reliance stations by December. Mukesh predicts consumer sales will surpass refining as Reliance Industries' main source of revenue within seven years.



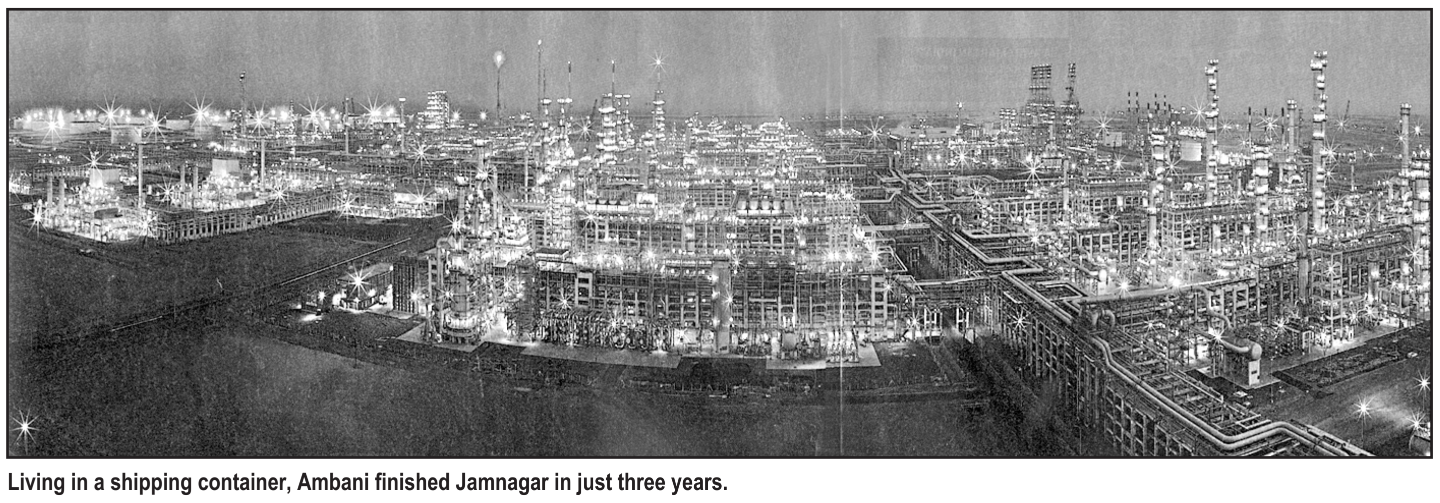
Dhirubhai Ambani

Ambani thinks he can beat the likes of Wal-Mart on his home turf based in part on local knowledge: for example, Reliance executives understand that small retailers are a powerful lobby, particularly on the local level, and could easily trip up a giant. So Ambani is moving first to incorporate small stores into his chain, starting with a trial partnership with the Sahakari Bhandar chain of 19 supermarkets in Mumbai. In just two months, Reliance has renovated, computerized and stocked these stores, with dramatic results: average store revenue and customer traffic have tripled. In a second stage, Ambani plans to build new superstores, starting on the outskirts of the 784 Indian towns with populations greater than 50,000 before expanding into the ten largest cities, where property prices and congestion make superstores problematic.

Ambani's farm, retail and energy visions merge at his Life Sciences Center in Mumbai, which is pursuing his "second green revolution." Founded in 2002, its research includes experiments in growing biofuels from the jatropha plant and cellulose on a commercial scale. "If you can crack the cellulose code just like the Da Vinci code, cellulose and jatropha could give us two agro-routes to a world without gasoline," he says. About half of Indian homes have no electricity, and Ambani says big companies have no workable plan to bring it to them (an indirect slap at Anil's Reliance Energy). His answer is to go "wireless." He now has teams setting up experimental biomass generators in remote villages, and envisions a day when thousands of villages have these generators -- sold and serviced by Reliance's rural retail network.

It could happen, as many obstacles seem to be melting in Ambani's path. Last year Parliament passed a law creating Special Economic Zones, which grant developers authority to plan new projects with more freedom than even China allows in its own bustling SEZs, on which Ambani's new cities are modeled. Reliance has all but secured 150 square kilometers of largely farm land east of Mumbai, at prices Jain estimates at 1/1000th those in downtown Mumbai. The government holds some equity in the projects, but as a largely "silent" partner, and has already approved Reliance's detailed plans for both new cities, says Ambani. "If you would have asked me five years ago if a project like this was possible I would have said no."

Reliance's first move will be to set up roads, rapid transit, power and water supply, telecom and rail links. In cooperation with the government it plans to build a 20-kilometer bridge across the bay linking old and new Mumbai, and a new seaport. Another private firm is building a new airport nearby. There will be a one-stop licensing agency, jointly run by Reliance and the government, to cut through India's infamous red tape. "Every serious investor in the world is approaching us to get in," boasts Jain, and Reliance has already secured $2 billion. Ambani expects that the cities will each pump $25 billion into the national economy every year. With groundbreaking due to begin later this year, Reliance aims to finish New Mumbai and Delhi by 2010 or sooner. "If anyone can do it Reliance can," says Sanjay Nayar, the CEO of Citigroup in India. After all, the bigger and faster, the better.



Living in a shipping container, Ambani finished Jamnagar in just three years.