



Spreading wealth
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S. Abhaya Kumar, Vice Chairman, LifeCell International (56), was both excited and worried. He was excited because TRlcell, a company that he recently floated to do clinical research and trials on the therapeutic usage of stem cells, was an excellent business proposition. But with the world just about getting to know about stem cell research and the typical long drawn process of clinical researches, funding the project was proving to be difficult.

He approached the Shriram Group, whose Founder-Chairman R. Thyagarajan readily agreed to take 20 per cent stake and fund Rs 7 crore. "As a partner, the Shriram Group never interferes in the running of the organisation. It offers valuable inputs on regulations, taxes, governance and on anything we ask," Kumar says. Manipal Accunova, a contract research organisation and a leading player in biotechnology and the clinical structure space, also has a similar story to tell.

Interestingly, the Chennai-based Shriram Group, which has seen its profits (excluding closely-held firms) surge from just Rs 83 crore in 2004-05 to Rs 834 crore in 2008-09 (a compounded annual growth rate of 78 per cent) with revenues of Rs 7,390 crore (2008-09) and assets worth Rs 38,500 crore under management, is neither a venture capitalist nor a project finance company. Bulk of its revenues (Rs 6,034 crore) come from financial services—truck finance (it funds one in every five trucks that run on Indian roads), consumer loans, chit funds and the insurance business. It also operates in the IT, realty and engineering sectors.

"We believe in encouraging enterprise and entrepreneurship," explains Thyagarajan in a very simplistic way. In fact, creating entrepreneurs is a passion for him—something he has done for years. What is interesting is that now he has put in place a formal structure to foster entrepreneurship not only outside but also within the group.

Shriram Group creates wealth by...

Lending to over 6 lakh truck owners. One in five trucks on Indian roads is funded by the group.

Managing chit funds worth Rs 3,500 crore every year across South India.

Providing consumer finance to over five lakh customers, especially SMEs.

Offering life and general insurance cover to over 3 lakh people.

Undertaking turnkey engineering projects in the fields of energy, waste water pipelines etc.

Building residential and commercial properties, including SEZs.

Developing software products in life sciences and production-supply chain management verticals.

...And promotes entrepreneurship

Outside the group by:

Funding entrepreneurs directly and through the Rs 100-crore TVS-Shriram Growth Fund.

Helping people below poverty line, especially women, start their business through microfinance.

Within the group by:

Sharing the promoter's wealth with the top managers and thus making them partners.

The Trust

In November 2006, Thyagarajan did something that he always wanted to do. He made good his promise of sharing his wealth with his management team who had contributed to the group's growth. He floated a trust to govern the holding company, Shriram Capital, which houses the promoter's shareholding. Through the trust, 75 per cent of the promoter's holding would be transferred to the management team upon their retirement, thereby making them owners of the group.

There are two tiers of owners. Those who have contributed the maximum for the group's growth, currently 12 members (with a scope to increase this to 22) are in the top tier and would get on an average 2 per cent of the shareholding. The next tier comprising 22 members (with a scope of increasing this further by another 8 members) would get an average 1 per cent. Thyagarajan himself will get only 2 per cent along with others in top rung. The remaining 25 per cent, currently valued at Rs 500 crore, has been reserved for entrepreneurship development.

TRCell and Manipal Accunova are the earliest beneficiaries from this trust. That apart, the group has joined hands with TVS Group and invested (again from the trust) in the Rs 100-crore TVS-Shriram Growth fund, a 50:50 venture fund initiated by TVS Capital. This fund would look at mid-cap businesses from emerging cities.

The entrepreneurship promotion is not restricted to organised businesses alone. Microfinance is the tool that the group is using to drive entrepreneurship in the lower strata of the society. Akhila Srinivasan, Managing Director, Shriram Life Insurance, who has taken up the work, is currently redistributing the profits of Shriram Consumer Finance this way and has helped uplift one-and-a-half lakh women out of poverty. "We have helped fruit sellers, tyre retreaders and others to set up small shops. About Rs 12 crore is the current year budget with a plan to tap 35,000 beneficiaries," she says.

Wiser by Experience

Though Thyagarajan's passion for entrepreneurship development is well-known, what makes the top management follow his footsteps? They too have taken up the mission very seriously. More than latter's influence, the reason appears to be the senior managers' experience within the group. Says Murali Malayappan who became Managing Director of Shriram Properties at the age of 29, "Thyagarajan trusted me when I was wet behind the ears with the venture and gave me full freedom in running it." Similarly, R. Sridhar, Managing Director, Shriram Transport Finance, was empowered many years ago by Thyagarajan to set up the western operations for truck financing 'just like that'. "We were free to take decisions that we deemed fit, and were backed at every stage," he says.

For instance, H.R. Srinivasan, currently planning the group's foray into infrastructure development, headed Sembawong Shriram, a joint venture company in the logistics field in 2001. He expressed a desire to be on his own after the Shriram Group exited the JV. He decided to foray into the IT product space with funding from the group. Today, the company, Take Solutions, which is into life science products and supply chain management products, with many intellectual properties in its name, is seeing better returns than most other IT product companies. Srinivasan has since handed over the reins to others and re-joined the group.

J. S. Gujral, Managing Director, Shriram General Insurance, insisted that he would manage operations out of Jaipur and disdains answering phone calls from head office. Says Thyagarajan with a grin: "He is whimsical, but I am not complaining. After all, as a CEO he has to implement his ideas and not ours." Whether it is T. Shivaraman, currently Managing Director, Shriram EPC, or Executive Directors like Subhasri Sriram of Shriram City Union

Finance, everyone has experienced the freedom of growing their companies like entrepreneurs and will be rewarded like one—with ultimate ownership upon retirement.

Says Akhila Srinivasan, who actively toes the line for helping entrepreneurs, “We have driven wealth creation within, and we believe that wealth creation is possible only if entrepreneurship is encouraged—this culture is now ingrained in us.”

The Business

The Shriram Group makes its money from financial services. One of its most successful companies, Shriram Transport Finance Company, specialises in financing the credit-starved used truck driver/owner segment. It has developed a risk-proof lending model and also funds micro requirements of truckers like tyre replacement. So well developed is its pan-India model, that last year when most NBFCs suffered, this company posted a 49 per cent jump in its income (to Rs 3,732 crore) and 57 per cent growth in its net profits (to Rs 612 crore).

Its NPAs have stayed below 2.2 per cent for the last five years. Shriram Consumer Finance gives personal loans with a special focus on the small and medium enterprise segment. Its income is Rs 934 crore and net profit Rs 117 crore. Shriram Life insurance, a three-year-old company, has a Rs 1,000-crore premium income with a sum assured of Rs 3,600 crore, having sold over 3 lakh policies. Shriram Chits and Investments, a chit fund company, does business of Rs 3,500 crore every year. The group, through Shriram EPC, has a Rs 1,000-crore presence in the engineering segment, while Shriram Properties develops townships in Kolkata, Vizag, Bangalore and Chennai.

The Shriram Group also had its share of difficulties when the NBFCs went through a major crisis in the late 1990s. Its survival then, and rapid pace of growth today, has been possible as it understands and values its partners who bring in the capital for further growth. Its relationship with private equity investors is a good example. Over the past seven years, PE investments worth Rs 3,323 crore have flowed into the group.

Some, who have cashed out like Merrill Lynch, Uno Investment and Citicorp, have done so happily having made profits ranging from 100 per cent to 774 per cent over a two-to six-year period. The Shriram Group, incidentally, has as many as 20 PE investors. Puneet Bhatia, Country Head-India for TPG's Asian business, whose investments in the group will soon total Rs 1,000 crore, sums up the reasons for his investment: “The group embodies the true spirit of partnership, enables significant wealth creation, builds strong business models, and has best-in-class corporate governance. What more!?”

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