

# THE MAKING OF GOKALDAS 2.0

THE HINDUJAS BUILT INDIA'S LARGEST APPAREL EXPORTS BUSINESS OVER FOUR DECADES. THOUGH ALL ARE PAST 60, THE BROTHERS BEHIND GOKALDAS ARE AGAIN THINKING AFRESH. HERE'S THEIR STORY.

*By Arindam Bhattacharjee*

Photographs by NAMAS BHÖJANI

#### **GOKALDAS EXPORTS**

India's largest apparel exports business, which was started by Jhamandes H. Hinduja and his sons (from right) Madanlal, Dinesh, and Rajendra. In 2007, the Blackstone Group bought it from them.

**GOKALDAS  
WAREHOUSING  
CORPORATION**

Rajendra has started a  
third-party logistics  
service with son  
Ashwin.

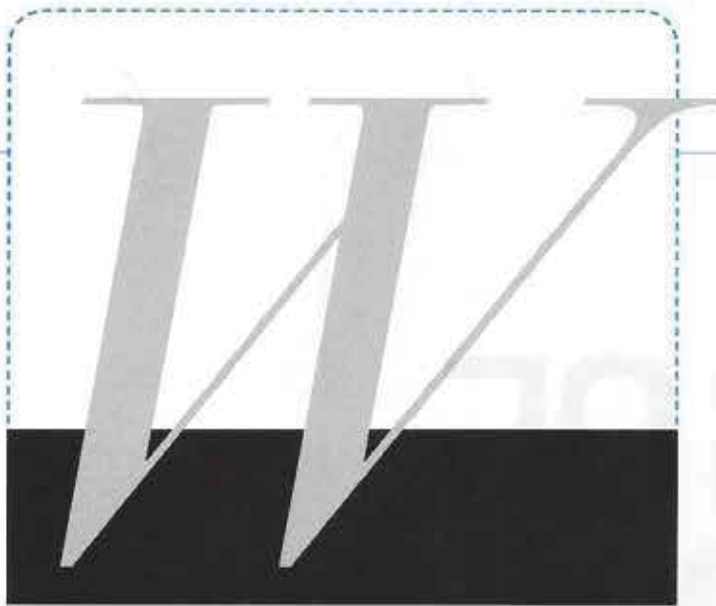
**GOKALDAS  
PAPER  
PRODUCTS**

Madanlal is into paper  
bags for luxury  
retailers with son  
Vivek.

**GOKALDAS  
LIFESTYLE**

Dinesh is building  
luxury houses with  
daughter Namita  
and son-in-law  
Jai Rupani.





*WHAT WOULD YOU DO IF YOU were past 60 and had nearly a thousand crore to burn? Buy an island? See the world? Turn sybarite? Or start out, yet again? Throw the poser at the brothers Hinduja—and they would say, start all over again.*

*Five years ago in August, Madanlal (70), Rajendra (66), and Dinesh (60) sold Gokaldas Exports to private equity giant Blackstone. Over four decades they had built it into India's largest apparel export outfit with a list of storied and fussy buyers such as Abercrombie & Fitch, Nike, Diesel, Guess, GAP, and Tommy Hilfiger. In an era when giant business houses manufactured only reams of textiles, the Hinduja had daringly built an empire around apparel exports, parleying expertise that made India famous later—*

MAY  
1979

A group of partnership firms—Gokaldas Exports—is set up by late Jhamandas H. Hinduja and his sons Madanlal, Rajendra, and Dinesh J. Hinduja.

With the lifting of the Multi-fibre Agreement, a quota that restricted garment exports, Gokaldas gets a boost and is recast into a private limited company.

APRIL  
2004

skilled, low-cost labour. On the night before the sale, racked with anxiety, the brothers barely slept. "There were doubts, a bit of reasoning, and a lot of apprehension about how the future would unfold," says Rajendra, then Gokaldas's managing director.

The following day, August 18, at 3.30 pm the brothers signed away 70% of their company for \$161 million (then around Rs 660 crore, or a 16% premium over the market) at the sprawling customer lounge of Gokaldas's headquarters on 70, Mission Road, Bangalore. While signing the deal, Dinesh told Blackstone India's senior managing director and chairman, Akhil Gupta, "I'm giving away our daughter [Gokaldas Exports], please take care of her." It was a unique Indian expression, used when newlywed girls leave their parents for the marital home.

Media mayhem followed. "Hundreds of questions, cameras, flashlights, TV crews, it all continued till 10 that night," says Rajendra. It was the end of an era, the headlines screamed the next day. The brothers, however, ran the company on Blackstone's behalf for another three years (see box 'Was it the End of an Era?'). They continue to hold 20% in Gokaldas (there's a public shareholding of 10%), but "purely as investors", says Blackstone India vice chairman Richard Saldanha, who sits on Gokaldas's board.

Meanwhile, Madanlal, Rajendra, and Dinesh had already begun scripting their reincarnation—but this time with their children in tow. Each, coincidentally, has an elder son and a daughter. Over the last 12-odd months, Madanlal and son Vivek have created Gokaldas Paper Products, a paper packaging company; Rajendra has set up Gokaldas Warehousing Corporation, a third-party logistics solution services outfit, with son Ashwin; and Dinesh is building Gokaldas Lifestyle, a boutique luxury realty venture, with son-in-law and PE partner Jai Rupani and architect daughter Namita. Dinesh's son Gaurav will be starting his own business, which he's yet to decide. Their reinvention in new avatars isn't just a parable for crack entrepreneurs forever seeking the next big idea. It's equally a tale of Indian business families rethinking how they operate and how best to preserve their legacy.



MADANLAL HINDUJA, THE SOURCINGMAN

## PAPER PRODUCTS

# 70%

OF PAPER BAGS IN INDIA ARE HANDMADE

- It takes about 30 days for a paper bag [a million years for plastic bags] to biodegrade.
- India is a large exporter of handmade paper. Others are Canada, Sweden, and the U.S.
- Paper used for retail bags is usually cement sack kraft of thickness 60 gsm to 220 gsm.



**INDIAN BUSINESS FAMILIES** were once united. But after delicensing, ironically, as opportunities grew, many of the storied ones broke up, thanks to internal squabbling. Equally, many owners

rigidly and arrogantly held on to their companies even though they found them increasingly difficult to manage. Cashing out was unthinkable: The hubris would wipe out shareholder value and, often, famous legacies. At the heart of the Hindujas' willingness to sell out, and regroup later, is the desire to escape such fates.

The brothers had seen its effects first hand. After Partition, their father Jhamandas H. Hinduja and his two brothers, elder Naraindas and younger Devkishendas, had moved their Sind-based silk trading business Gokaldas Harbhagwandas Partners over to India. But, in 1979, that split into Gokaldas Exports, Gokaldas Images, and Gokaldas Fashions. Later, Gokaldas Fashions shut down, some sources in the industry said, over differences among Devkishendas's three sons; while Gokaldas Images continues to be run privately by Jagadish Hinduja, the second son of Jhamandas, whom Naraindas had adopted.

By selling Gokaldas Exports, Rajendra believes they have pre-empted any such break-up. "Our generation

could come together to identify an opportunity, give their sweat, and play each other's role to build a formidable business. But as Gokaldas grew big and unwieldy, along with the family, we realised the next generation might not see eye to eye." As the conversation proceeds, Dinesh points to the oft-quoted cycle of entrepreneurship, of "the first generation building it, the second maintaining it, and the third destroying it".

This assessment doesn't necessarily mean that there are rifts among the third-generation Hindujas. But, as Rajendra and Dinesh explain, they were second generation and brothers, while their sons are cousins. Moreover, as opportunities multiply, so does the scope for disagreement. And as custodians of a legacy, they weren't prepared to take any chances. "To be honest, I am not sure whether we [the cousins] could have managed the business as well as my father and uncles did," says Ashwin, Rajendra's son.

It wasn't just the fear of internecine conflict that triggered the sale of Gokaldas Exports. Madanlal says that since 2004, the "ageing" brothers have been on the lookout for a simpler business, which would not involve managing vast labour, constant attention to tangled government regulations and bureaucracy, or hundreds of visits to hard-to-please customers from the world of



RAJENDRA HINDUJA HAS EXPERIENCE IN GOVERNMENT LIAISING AND LOGISTICS.

## WAREHOUSES

# 8%

OF 1,800 MILLION SQ. FT. OF WAREHOUSE SPACE IN INDIA IS IN THE ORGANISED SECTOR

- 60% of warehouses belong to the Food Corporation of India for crop storage.
- Transporters, mostly single-truck owners, run 70% to 80% of warehouses in India.
- About 50% of retail inventory is lost due to lack of technology in warehouses.

fashion. "We debated it many times within the family that we were growing old and it was necessary to have a retirement plan in place; it did not mean quitting business but getting into one that involved less physical toil."

Even the idea behind taking Gokaldas public in 2005 had something to do with that—to create an easier exit if things got messy. The issue of 31.25 lakh equity shares at Rs 425 a share was oversold 42 times and fetched the Hinduja Rs 325 crore. Gokaldas Exports was listed on the Bombay Stock Exchange at Rs 566, a 33.18% premium over the issue price, and became Gokaldas Exports Public Ltd.

By early 2006, negotiations with Blackstone, initially brokered by Kotak Mahindra's Uday Kotak, had begun. "It was done more for the third generation—an arrangement which would keep the family united, even though businesses would be separate," says Dinesh.

The unity manifests itself in different ways these days. For example, the offices of the three new entities are housed in the same building, Gokaldas Chambers, on Bangalore's Bellary Road, where Madanlal sits on the floor above Rajendra and Dinesh. The three offices even have the same facade and decor: pristine white pillars with clear glass walls, designed and built by Dinesh. Then the brothers travel on pilgrimages together. Their mother, Dayawanthi Hinduja, lives with all the three brothers in turn. And, every week, for a day, the brothers along with their families get together.

Their houses are barely a kilometre from each other and Gokaldas Chambers.

So now that the apparel exports business that made them famous has been saved from a potential feud among the cousins, and the family stands intact, can the brothers recreate entrepreneurial magic—and this time individually? That too will determine their legacy.



**I** F I HAVE TO TAKE THE HELP of my two brothers to build the paper packaging business the same way we built Gokaldas Exports, they'll be behind me," says Madanlal. While that's a fine sentiment, so far the brothers have been working separately. The money from the Blackstone deal along with the proceeds from the listing have ensured that there's enough capital going around—approximately Rs 330 crore per family. Each family also owns land and collectively about 14 factories, some of which get rent from Gokaldas Exports. So, it's the idea and its execution that'll determine success.

Madanlal says he's seeing the same opportunity in paper as he saw in apparel in 1968. Back then, he'd picked up a shirt made of "strange cotton" from a 200 sq.ft. Indian boutique in Madrid, ripped off the label and sold it to the world's leading department store and Gokaldas

APRIL  
2005

Gokaldas Exports goes public. It lists on the Bombay Stock Exchange at a 33.18% premium over the issue price of Rs 425.

Gokaldas Exports crosses the milestone of Rs 1,000 crore in sales, a first for an Indian apparel company.

MARCH  
2007

AUG.  
2007

Global private equity giant Blackstone Group buys Gokaldas Exports for \$161 million.

As per the agreement with Blackstone, the Hinduja exit Gokaldas after three years of running the business on behalf of the investor.

MARCH  
2011

Harbhagwandas Partners' client for silk fabric, Magasin du Nord, Copenhagen. It was crepe, a rage in Europe. "We can make similar shirts for you," he told the store. An order for 20,000 such shirts sowed the seeds of Gokaldas Exports and India's market for crepe cotton. "Cotton had always been the preferred material in Europe, and with cheap labour in India, I could see the opportunity in the organised sector to mass-produce cotton garments for the West. It was also far less expensive than silk," says Madanlal. He has been Gokaldas Exports' fabric buyer ever since.

His son Vivek, one of the chief operating officers at Gokaldas Exports for over 12 years, says they've been noticing how Europe and China increasingly use paper. "In 25 years, paper will be the alternative to plastic. And, for my father, who's a sourcing and negotiations expert, it's similar to converting textiles to finished garments." The big idea: make paper bags that a GAP or a Nike will pack their goods in. Gokaldas Paper Products has already set up a plant that can make one lakh bags a day on its own land in Yelahanka, 30 kilometres from Bangalore.

Retail is the primary force behind paper packaging. According to a Ficci-Tata Consultancy Services report last month, the retail industry will touch \$1.3 trillion in the next eight years, driven by modern trade. It's about \$500 billion currently. "High-end retailers are already shifting to paper bags for image. The Hinduja's are on the right path," says Subhasis Roy, Bobst Asitrade Martin's business director-SEA, India, Mid-East & Africa. Bobst Asitrade is a world leader in paper packaging equipment, though Gokaldas Paper isn't one of its clients. Also, India's per capita spend on packaging was a meagre \$20 in 2011, significantly lower than the average of \$348 in the top 20 countries. That's where opportunity lies.

Much of what Madanlal did at Gokaldas Exports will come in handy here. To begin with, there's an element of labour arbitrage. Roy says 70% of paper bags in India are handmade, which makes it costly. India is also a large exporter of handmade paper; some companies export as much as half their output. This industry structure makes Madanlal and Vivek comfortable. "Yes, it's a labour-

intensive industry, and, therefore, we have invested in state-of-the-art machinery to bring down costs. Sourcing is cheap since India is already an exporter of handmade paper," says Vivek.

Then, often the buyers for paper bags are ones that did business with Gokaldas Exports. Gokaldas Paper has already begun selling its bags to Elle, Levi's, and Reliance, and is now in talks with Adidas in the US. "It will work if the Hinduja's exploit their apparel clients downstream," says Manish Patel, chairman and managing director, The South India Paper Mills. According to him, paper bags are niche lifestyle, a segment that barely exists in India. China and East Europe are the world leaders and Vivek confirms he has just three rivals here. "There are very small players here. The Hinduja's must be having a more global market in view," Patel adds.



**BANGALORE'S ENTREPRENEURS TALK** about the Hinduja's having a nose for business. Though none spoke for attribution, a few pointed to The Warehouse, a readymade garments chain that the Hinduja's

launched in India in the early 1980s—something unthinkable here at that time—sensing a demand from college-going kids who were seeking smart, western casuals. With the entry of big, international brands, it was consolidated with the main business, though three outlets are still operational in Bangalore. The brothers are clearly de-risking their new ventures by sticking to familiar areas. Equally, they are entering sectors which are nascent, and, therefore, easier to redefine by a businessman with skills and capital. It's a bit like what they did with apparel exports in the sixties.

That explains why Rajendra and son Ashwin are building a logistics business. "I would manage 40 to 50 trucks a day," says Rajendra, adding that handling imports of Rs 400 crore to Rs 1,200 crore annually at Gokaldas Exports gave him the required confidence and insight to deal with shipping, ports, transporters, clearing houses, and warehousing. He even spent a year abroad to understand the potential of logistics, and realise "the lack of a spe-

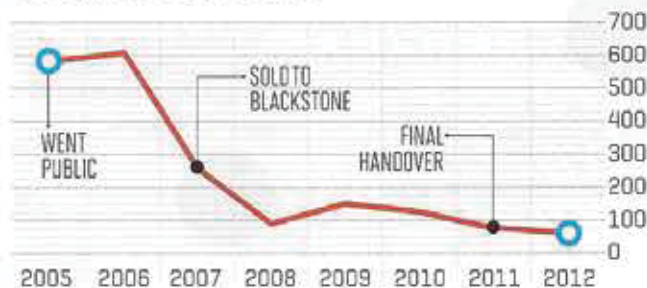
APRIL 2011

The three promoters of Gokaldas Exports start three new businesses not directly related to apparel.

The Blackstone Group pledges its entire equity stake in Gokaldas Exports, held through a Mauritius holding firm, to raise funds.

FEB. 2012

GOKALDAS'S FADEOUT?



ALL FIGURES IN RS. SOURCE: BSE

cialised logistics business in India”.

Pavan Vasudeva Murthy, senior analyst with GTNexus, a U.S.-based cloud computing service provider to the logistics industry, who helped auto components giant Bosch build a modern IT-enabled captive warehouse in Gurgaon, says: “In India about 90% logistics companies are single-truck owners. Here, warehousing is considered just a shed or godown with four walls.” Most warehouses here are situated on inaccessible ancestral farmlands that are given out on rent and operated by unskilled labour.

“Rent of land comprises almost 50% of the logistics cost. And with the makeshift nature of the business, damages, pilferage, and low shelf life make warehousing very unattractive,” says Murthy. Also, few—less than 3%—owners of logistics businesses are postgraduates or MBAs, he adds.

Rajendra, with a background in mechanical engineering, says he is building state-of-the-art customised warehousing facilities for global companies who need them in India. “We will lease out warehouses, bundled with modern IT-enabled equipment, ERP software, and complete supply-chain integration tied up with foreign cargo forwarders who have a presence in India.” It’s familiar territory. He is already tapping cargo forwarders such as DHL, FedEx, DB Schenker, Geodis, and TNT with whom he dealt at Gokaldas earlier.

In just one year, Gokaldas Warehousing has built around 1 million sq.ft. of capacity. The advantage is that all of it has come up on its own land. This means he doesn’t have to pay rent, which accounts for half the costs—and he can use price to build share by charging

WAS IT THE END OF AN ERA?

ALL HAS NOT BEEN well at Gokaldas Exports since 2007. Its share price has tumbled to around Rs 70 from a peak of Rs 623. Blackstone has repeatedly posted losses year after year. The number of factories has been reduced to 32 (from 42), and the workforce to 34,000 (from 42,000).

“When Blackstone took over Gokaldas Exports, there was a feeling that the business was on a decline, and it was the end of an era,” says Richard Saldanha, Blackstone India vice chairman. Dinesh Hinduja, former executive director of Gokaldas Exports, and now into boutique realty, says this may not be true. According to him, the global financial crisis, which followed the sale of the business, caught Gokaldas unawares.

When Blackstone took over, it had plans

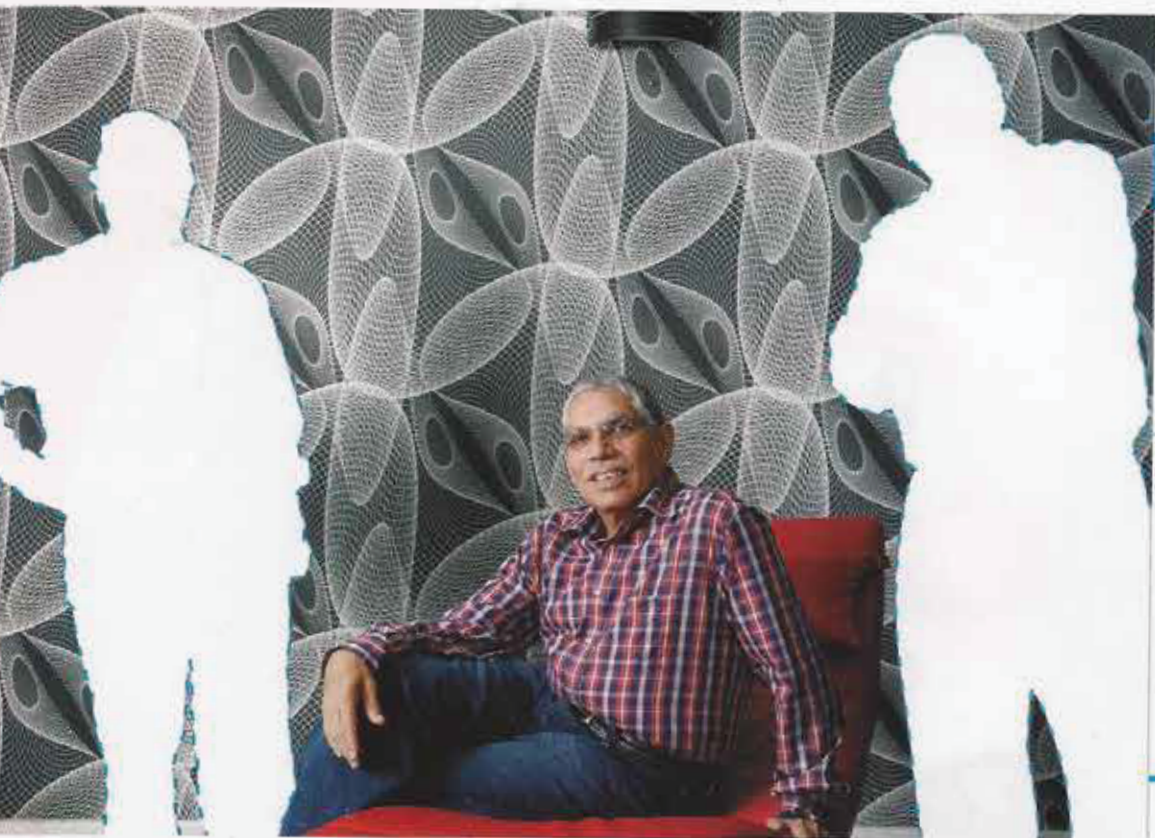
of flipping it over to another buyer in five years. “Since things turned challenging, Blackstone is taking a longer-term view,” says Saldanha, adding that unlike a typical private equity investment, Blackstone will now build the business and run it. Saldanha, a former Haldia Petrochemicals managing director and ex-chairman and CEO of Unilever Peru, was brought on as non-executive chairman of Gokaldas Exports a year ago to “professionalise and manage the business”

BLACKSTONE WILL USE GOKALDAS TO MAKE GARMENTS FOR ITS OTHER APPAREL INVESTMENTS.

rather than treat it as pure investment.

Blackstone is trying to reposition it as a more “customer-focussed company than just pure manufacturing,” says Saldanha, adding that in March this year Gokaldas launched the world’s first centrally controlled manufacturing management module in the garment industry. This will enable customers in any corner of the world to view real-time manufacturing of their garments. Saldanha is hoping that will make the buyers “direct stakeholders”.

Synergies between Gokaldas Exports and other Blackstone investments are also being explored. It will manufacture garments for German outdoor-wear retailer Jack Wolfskin, which it acquired in 2011. Similarly, the Hilton chain of hotels worldwide, again a Blackstone investment, “will explore buying all its apparel needs from Gokaldas”, says Saldanha.



DINESH HINDUJA, THE YOUNGEST OF THE BROTHERS, BUILT FACTORIES ALL HIS LIFE.

## REALESTATE

# 23

MILLION IS THE TOTAL  
SHORTFALL OF HOMES  
IN INDIA

- Residential realty contributes to 5% of India's GDP. It ranks third among 14 big industries.
- In 2011, private equity funds invest \$1,700 million in the sector, the highest in five years.
- The World Bank *Doing Business 2012* report ranks India 181 in ease of processes.

almost 25% to 30% less per square foot. "All our land is in prime, accessible, and developed areas. They were acquired keeping in mind Gokaldas's need for a quick supply turnaround for exports," says Rajendra.

The industry is lapping it up. "Last month, we inaugurated a half-a-million sq.ft., ready-to-move-in warehouse for a logistics company in Manesar near Delhi," says Ashwin, while his father says he's in talks with Peugeot, Ford, and Volkswagen for warehousing in Ahmedabad. They are also looking at building scale quickly, and making the asset attractive for private investment. "We plan to double capacity in the next five years," says Rajendra, who adds that revenue will come from rentals. He gives it seven years to catch the eye of private equity funds. "Our model doesn't exist in India at the moment."



**D**INESH, MEANWHILE, IS BETTING BIG on real estate. He was the go-to guy to build factories, having built some 50 of them. Madanlal calls him the most aggressive of the three brothers, "who would set up factories for Gokaldas Exports almost overnight".

While building luxury condos (what Dinesh's Gokaldas Lifestyle does) and putting up factories aren't strictly comparable, Dinesh says he is not looking at becoming the next DLF. "I am not into building large complexes of 400

houses to 500 houses. My projects are going to be small in number, having apartments of 3,000 sq.ft. to 5,000 sq.ft. but of very premium quality—with private swimming pools, gyms, spa, et al. All of them cost between Rs 1.5 crore and Rs 5 crore." Gokaldas Lifestyle has already sold three luxury projects at Judicial Colony, about an hour's drive from MG Road in Bangalore, in the six months of its existence and is expected to hand over the houses by December next year. Here too, Dinesh is building on land that he owns.

Getambar Anand, a realtor and vice president of Credai, a real estate association of which Gokaldas Lifestyle is a member, says what Gokaldas Lifestyle is doing is low-volume but high-margin property development. "He is targeting the peak of the pyramid in real estate. If I had the cash like Gokaldas Lifestyle, I would have targeted the middle segment of the pyramid, where there is currently a short supply of 23 million homes in India."

The brothers Hinduja have now set the stage for Gokaldas 2.0. They have averted a possible family feud, generated enough capital, and put in place a legacy to follow. With resources tapped from the past, it is now for the third generation to lead to the future even as Madanlal, Rajendra, and Dinesh will continue wielding the wand. "The Hinduja brothers are a very smart bunch of entrepreneurs. They can create magic again," says Blackstone's Saldanha. ■