

'WE HAVE ALWAYS BELIEVED IN TEA'



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DEEPAK Khaitan, the eldest son of the legendary tea baron Brij Mohan Khaitan, has inherited his father's passion for tea and sports, but hasn't quite stuck to the same protocol. In Eveready Industries India Ltd, Deepak has the country's largest battery manufacturing facility as well, while tea-wise the group flagship McLeod Russel India is now the world's single largest tea conglomerate. The rich 'n' famous let their hair down sometimes in sports they take a fancy for. His father's association with golf dates back to the days of the true blue sahibs of Kolkata. The son took a fancy to horses instead, and when his magnificent wards stretch full-length round the bend and gallop past the winning post, Deepak forgets his problems. His face lights up in sheer joy as he unwinds.

In a First on ET NOW interview with Anuradha Himatsingka, Deepak Khaitan dropped his guard and talked exclusively about his group, his passions and his family.

Mr Khaitan, how has your group fared over the last five years and more recently, during the economic slowdown?

We have had a tough five years. We had to go through a massive restructuring of the group. And the change took place in 2005 when we demerged Eveready, and formed two large businesses, battery and tea plantations. That gave a great fillip to both the companies. Both grew. We went and bought BPL Power Cell. Battery grew to be the fourth largest brand, pushing up our market share to about 55%.

Simultaneously, McLeod Russel went and acquired the Magors, Doom Dooma Tea and Moran Tea. Recently we have gone and acquired 40 lakh kg in Vietnam. With these acquisitions, we have become the world's largest plantation company with near 80 million kg of tea, employing over 30,000 people and exporting about 25 million kg of tea. The second company is a very far second.

We have always believed in tea. Our family virtually grew from tea. We feel it is the cheapest drink in India after a glass of water, which is free. A poor man wakes up in the morning and drinks a small cup of tea. We feel as the country grows and as GDP grows, more wealth goes into the hands of the poor man. Tea consumption, which had been growing at 1.5-2% for many decades, has suddenly picked up to about 3.5%. I personally feel that over the next five years, tea consumption will go up to something like 5% per annum on a consumption pattern of about 850 million kg.

If you add 5% and compound it over a period of five years, you are virtually asking the crop to grow by 250%. That is, I think a very difficult task what with varying climate conditions and land-

related problems. The government of India is not giving more land for tea, as there is land problem in every state. So tea price is bound to go up. Import of tea will have to take place one day and therefore, we hope to grow our tea business further, with acquisitions both domestically, if available, and abroad, whether in Vietnam or Africa.

You are the only business group that is still acquiring tea estates, unlike other companies, who are moving out of the business altogether. Why?

My father had got into tea in 1963. We have been able to manage the environment and we have been able to manage the workers.

We never really had a problem. Tea estates have gone through crisis in Assam in the 1990s, with the Ulla. We had managed the situation. We had got security. We have got a very dedicated system, very dedicated people who are working on it. So for us, to expand or to take on something that is not good and redo it, is pretty normal.

Are you open to more acquisitions? Are you right now looking at something to buy within India or abroad?

We are seriously open to more acquisitions. I do not know whether we will be able to. It is not easy at the moment because tea prices have shot up. Sellers aren't quite there, and those that are there are asking for very high prices, which we are not prepared to pay. Therefore, right now we are basically looking for acquisitions abroad. Domestically, we are not.

Apart from EIL and McLeod Russel, can you tell us about your plans for the other group company, McNally Bharat Engineering?

McNally Bharat Engineering, I think is a company that many people don't know much about. It is an eastern engineering business, which three and half years ago, had a turnover of about Rs 300 crore. Over the past three years, we grew steadily. We have suddenly grown to about Rs 1,100 crore now. I think it will grow at something like a 50% CAGR for the next three or four years. We do have a vision of crossing Rs 5,000 crore by 2012. The sectors that McNally services, will have to grow if India has to have a 9% growth in GDP. Infrastructure will have to grow, whether that means power stations, coal, minerals, zinc, copper or iron ore. We are also in road building, in bridges, in cranes and in material

handling.

We just finalised an acquisition in Germany which gives us technology in the coal mineral field. It will help us to make coal washeries. India needs coal washeries in a big way because of the ash content in coal. So with these projects in hand and opportunities coming up, even with acquisition of the German company, we will have an opportunity to grow outside India. I'm quite confident that we will become a Rs 5,000 crore or a \$1-billion company very soon.

Is McNally Bharat also looking at acquisitions?

We are always looking at technologies related to infrastructure and if we do find a good technology fit with McNally Bharat, and the company is available at a reasonably good price, we will buy it. We feel that McNally Bharat needs technologies to grow in this business. At the moment and for a year or so, we will have to consolidate the German acquisition and then take it forward from there.

Has your group created a war chest to part finance the group's acquisition plans?

We never really had a war chest, anytime, because I feel that if you have money, you don't have opportunities and when opportunities come, you really don't have a chest. But if it is a good opportunity, and it is structured well, we can easily create enough internal generation of funds.



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Can you also give us an update on Kilburn Engineering?

Kilburn Engineering is a small company. It is based in Mumbai and it has gone through restructuring. We've sold off the land in Mumbai and we're putting up a new plant near Mumbai for the business to grow. It has a turnover of Rs 100 crore end-March. We think that in three or four years, the company can grow to Rs 300-400 crore. It is in specialised fabrication and engineering, where the market is growing. There was a dull period meanwhile, but I think things are better now and the company will grow.

Your group owns large properties across the country. Over the years you have sold some surplus land to cash in on the rising real estate prices. What are the plans now, especially when real estate prices are not at very attractive levels?

We have properties. We have land. We believe land is finite and you can't replace land. It will always grow in value. There are blips in the evaluation, but I do feel that once all this

stabilises and with India's population growing, the need for both commercial and residential space will come back. It has already started picking up. I think in a year's time, there will be demand for properties again. When that happens we will sell our properties. At this moment, the group's hands are quite full. With growth plans for in McNally, tea and batteries business in place, we are not looking at real estate as a business.

Can you tell us about your passion for horses and horse racing?

Horse racing has always been a passion. It has been a passion since the late 1980s. I was fortunate to have owned some fabulous horses. I enjoy racing. I don't gamble. I enjoy seeing my horses win.

It was a passion in the 90s and it still is a passion. But now, I think the greatest passion is to really see my businesses grow. I think India is a great opportunity and in the next 5-10 years, I think our group can really grow.

I think horse racing will always be there as a side hobby. From a passion, it will become a hobby. And I think it is when I spend time on that particular hobby, I forget all the other things in life, especially its problems for those couple of hours. I think it does relax you. It makes you come back to your business with a fresher outlook than before.

I do buy some horses. I also breed some horses. I have some old mares which I breed. But my buying has come down. I don't think I'll be buying too many horses in the future.

Outside India, horse racing is a huge business—in the UK, US, Australia, Singapore and Hong Kong. In Hong Kong, racing has become a passion. It generates so much money that it keeps Hong Kong going. Around the world it is a big game. It's very big in Japan. So it's all quite well-structured. South Africa, Brazil, indeed many, many parts of the world, have horse racing.

What role did your father BM Khaitan play in your life?

Dad is a self-made man. He came up from nothing. In 1963, he got his first break. That was tea and from that day onwards, he has grown his group to the size where we are today. Due to his foresight, passion and love, both myself and my brother feel very lucky.

Touch wood, he is still fit at 82. He plays golf, takes active interest in business. He is fully aware of what is happening within the group and I can only say that if I can come within 30% of what all he had achieved, I would be blessed. That itself would be a Herculean task. We are really amazed as a family about my father.

Many people in Kolkata and in business circles know him and about his integrity and loyalty. It is something that cannot be described.

