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(Right) RAVI MODI
Founder & Chairman
Vedant Fashions

P BRAHMANANDAM
Managing Director
Devi Sea Foods

+

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THIRTEEN ENTREPRENEURS WHO DARED TO BUILD BIG BUSINESSES WITHOUT RELYING ON EXTERNAL INVESTORS

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GETTING UNDER THE SHELL OF IT

By focusing on the US market, and exporting value-added shrimps directly to large retail clients, Devi Sea Foods has carved a lucrative niche for itself

By PRAVIN PALANDE

In the early 1990s, P Brahmanandam, who was a civil constructions contractor in Visakhapatnam, received an offer from a friend who owned fishing trawlers. Given the surplus cash he had from his business, would Brahmanandam be interested in investing in the lucrative marine export industry? He said he would.

After pooling in their own money, and taking a ₹25-lakh loan from Union Bank of India, the two friends started Devi Sea Foods (DSF) out of a leased facility in 1992, with the intention of buying shrimps from local farmers and selling them in the international market.

Brahmanandam, who joined the company as its managing director (and remains so), quickly realised how high the margins were, and DSF turned profitable in a few months. In 1997, he bought out the 50 percent share his friend—whom he declined to name—had, and took full control of the company.

By 1997, DSF had established itself in the Japanese market, with clients such as Mitsubishi Corporation and Hitachi Corporation, and was training its sights on the US market, one of the biggest markets for Indian shrimp exports. For this, he approached an old Australian client. In 1996, says Brahmanandam, this client, then a small-time shrimp importer, wanted to return a batch of DSF shrimps because they were sub-standard, and he had readily agreed. By the time Brahmanandam was thinking of entering the US market, the Australian client had turned into a major vendor for Orlando-based Darden Restaurants, which owns eight restaurant chains in the US and Canada with 1,536 outlets and sales of $6.93 billion in 2016. He helped Brahmanandam get in touch with them. In 1999, DSF started supplying processed shrimps to Darden Restaurants.

Focusing on the US market has been the key to DSF's growth. In around two decades of entering the market, the company's turnover has reached ₹1,231 crore, clocking a net profit of ₹64.66 crore (as of March 31, 2017); on an average, other Indian shrimp exporters have a turnover of ₹600 crore.

Over the years, DSF has grown through internal accruals and not needed external capital in terms of debt or equity. "We never needed to look for capital as the business has been generating cash from year one. We have managed to fund all our expansion through our internal accruals," says Brahmanandam, 64. "If the company can manage with internal finances, there is no need to go for external equity. DSF is not averse to external equity and debt. But you need to be equally responsible and disciplined about it, whosoever's money you are using."

By sticking to its core business, DSF has made efficient use of capital, which can be measured in its high return on equity (RoE). Between 2012 and 2017, its net worth has gone up from ₹103 crore to ₹326 crore, with a consistent RoE of 20 percent.

The 1990s was a time when the Indian shrimp industry largely supplied whole, unprocessed black tiger shrimps to the Japanese and European markets. Till about 2001, the demand for black tiger shrimp was high. This was also a time when the US did not consider India as a source of shrimp imports as the country's farming and processing methods did not meet the quality and safety standards of the US Food and Drug Administration.

DSF took all these factors as opportunities and, moving away from convention, decided to focus on food service and retail supermarket customers in the US (instead of selling to importers) by supplying value-added products—shrimps that were cut, cleaned and processed according to the client's requirements. They also began to supply Pacific white shrimps, which have a higher yield, are more economical, and not as vulnerable to disease as black tiger shrimps.

In 2000, DSF purpose-built a new production facility, at a cost of ₹20 crore, in the town of Tanuku in Andhra Pradesh's West Godavari district, and started producing raw and ready-to-cook shrimps of various kinds: Head-on, headless shell-on,

P Brahmanandam at the DSF production facility at Tanuku in the West Godavari district of Andhra Pradesh

P RAVIKUMAR FOR FORBES INDIA

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easy-peel, peeled and deveined, breaded or marinated or skewered. The company got technicians and trainers from Darden Restaurants to train its employees in the processing methods, and invested in liquid nitrogen freezers from Praxair in 2001 for quick-freezing the produce.

Starting with 100 employees, and processing 200 kg of shrimp per day, DSF now has 250 employees and processes 15 tonnes of shrimp per day at its two production units (the first one at Ongole, in the Prakasam district of Andhra Pradesh, was started in 1995). These investments paid off in the form of higher profit margins: Brahmanandam says that while other shrimp export companies have margins of around 2 percent, DSF enjoys net margins of 10 percent.

But a flourishing trade in the US soon attracted anti-dumping regulations for Indian shrimp exporters. In 2004, American shrimp producers filed a case with the US Department of Commerce against countries such as India, Thailand, Ecuador, Brazil and China. Indian companies such as DSF could export to the US only after payment of a 3.5 percent duty (they did not pay any earlier). After five years, when the issue came up for review, DSF presented a strong case for itself before the US authorities as a supplier of value-added products (which were exempt from duty) that was not hurting the domestic market. "They eventually cleared our name in 2009 and that was a big relief," says GS Rao, commercial director, DSF. "There are only three companies in Asia that have got such exemptions [the other two are from Thailand and China], and we are one of them." The amount of duty that DSF had to pay in the intervening years was also refunded.

The move towards value-added products also helped the company get high-value customers like Sysco Corporation, the world's largest food distributor, with more than $50 billion in annual revenues, in 2007. Netting Sysco as a client, however, was a lot of hard work, with DSF negotiating for almost a year to just get an appointment with its directors. Although the first meeting took place in 2006, at the company's Houston headquarters, Brahmanandam and Rao had a tough time convincing them of their credibility and their quality and safety standards.

> **"I think what has really worked is that Brahmanandam is a people's person and the first thing that he looks at is the value-addition or benefit that he can create for other people."**

Sysco finally agreed, but placed an initial order of 3.7 million pounds, a relatively small one by export standards. "We were happy to take the small order because we knew that we could deliver on it. A larger order with so many processes would have been difficult," says Brahmanandam. Today, DSF in the US—the American subsidiary of the company was set up in 2005—supplies frozen shrimps worth $100 million (20 million pounds by weight) annually to Sysco, which is now DSF's largest client, with a 70 percent share of the company's exports.

Almost 90 percent of DSF's current exports are to the US market, while 6 to 7 percent is to Canada; it has stopped exporting to Japan after shifting its focus to the US.

Brahmanandam's move towards value-added products gave him the advantage of higher margins that other shrimp exporters caught on to only later. Exporters such as Falcon Marine, Devi Fisheries and Liberty Frozen Foods now supply value-added shrimps to the US. However, unlike DSF, they sell to importers and not to retail clients, which means their margins are lower. Although the initial investment into the processing plants was capital-intensive, DSF's business was generating free cash flows, which he was investing back into the business.

DSF's success can also be attributed to the fact that it focussed only on the shrimp business, and did not diversify into other products, such as fish. Most other shrimp exporters in India, who don't do any value-addition, export other marine food products as well.

"I think what has really worked for the company is the fact that Brahmanandam is a people's person and the first thing that he looks at is the value-addition or benefit that he can create for other people. Be it dealing with customers or suppliers, he values his people," says Rao.

The shrimp export business is labour intensive. DSF has built a reputation for itself among the shrimp farming community of Andhra Pradesh by making timely payments. It claims that other shrimp exporters are not prompt with their payments, which are sometimes made after 10 days of procurements. Earlier, DSF would procure shrimps from the farms, but from 2004 it started encouraging farmers to come to the plant directly; DSF would pay them within 30 minutes of the produce being delivered. The company claims that other exporters are now following similar procedures.

Although such payments mean DSF has an additional pressure on its working capital, Brahmanandam feels maintaining the company's reputation is paramount. "We feel the farmers should come to the plant only once and get their dues. This ensures we get good quality shrimps on time, and can easily maintain our inventories in the international market," he says.

Over the last two years, investment bankers and private equity players have been urging Brahmanandam to take the company public. "They are saying we can get a valuation of ₹4,000 crore. But we don't need the money. What will we do with it unless there is a need for expansion?" he says.

DSF's growth plans revolve around the Asian and Western markets. With technological advancements, shrimp farming and production has been on the rise, and will continue to be so. Growing shrimp production also offers opportunities to allied industries, such as processing units and manufacturers of shrimp feed and seed.

According to the Ministry of Commerce and Industry, India exported 0.4 million metric tonnes (MMT) of shrimp, worth around $3.7 billion, in 2016-17. The US was the largest import market (0.16 MMT), followed by the European Union, Southeast Asia, Japan, the Middle East, China and other countries. Among all the seafood exports from India, frozen shrimp remained the top item, accounting for 38.28 percent by volume, and 64.50 percent by earnings (in US dollars); shrimp exports increased by 16.21 percent (by volume) over the previous year.

In the short term, DSF plans to build a new shrimp processing plant with a capacity of 10,000 metric tonnes per annum (MTPA) in Andhra Pradesh, with a capital (fixed and working) outlay of ₹100 crore; the plant is expected to be operational by mid-2018. This will take the company's production to 25,000 MTPA by March 2019. The increased capacity will meet demand from existing clients, as well as a few new ones in the pipeline.

In 2016, DSF forayed into manufacturing shrimp feed, by setting up a production unit near Kakinada in Andhra Pradesh. Plans are afoot to install another production unit, with a capacity of 40,000 MTPA, at a cost of ₹50 crore, to be functional by next March. Production of shrimp feed is expected to reach 0.1 MMTPA by March 2019, with revenues of ₹650 crore. By March 2019, DSF aims to cross ₹2,500 crore in revenues.

Over the long term, Brahmanandam plans to make DSF a global sourcing company and expand its footprint in European markets by replicating its US model. He also wants to build alliances across producers in Asia to ensure alternative supply sources.

In 2016, DSF and Avanti Group started an asset reconstruction business called Maximus by investing around ₹50 crore each. They plan to increase this to ₹100 crore in the next few years.

Brahmanandam feels there are many small companies that are unable to repay bank loans and have become non-performing assets. He plans to buy out these assets from the banks and help the companies restructure their business.

"It is a small gesture to help small businessmen who are in trouble. It is our way of lending a helping hand and providing capital to those who are a lot like us—companies that have the potential to grow," he says.

He looks at this venture as a challenge and an opportunity. "We have run a focussed business for 25 years. We wanted diversification and this is how we want to do it."

APCO INFRATECH

Apco Infratech, incorporated in 1992 by Anil Kumar Singh, has interests in the development of highways, energy, urban infrastructure and industrial development with an outstanding order book of ₹5,500 crore. Most of its revenue comes from road construction. The company is currently involved in building Z-Morh, a 6.5-km tunnel on the Leh-Srinagar highway that will provide round-the-year access to Sonamarg, a well-known tourist destination in Kashmir. Apco has also bagged projects from the National Highways Authority of India to construct the Meerut-Bulandshahr and the Delhi-Meerut Expressway.

RATING: CRISIL A-
OPERATING INCOME: ₹1,253.1 crore
LOCATION: Gurugram

ASK AUTOMOTIVE

Set up in 1988 by KS Rathee and wife Vijay Rathee, the auto component manufacturer boasts marquee clients—Honda Motorcycle and Scooter India, Hero MotoCorp, Bajaj, TVS, Yamaha and Maruti Suzuki among others. In addition, it is also a supplier to auto component makers like Sunbeam, Rockman Industries and Rico Auto. ASK, which specialises in brake manufacturing, has 10 plants located in Gurugram and Manesar and in 2015 set up a unit in Gujarat.

RATING: CRISIL A+
OPERATING INCOME: ₹1,081.3 crore
LOCATION: Gurugram

CRI PUMPS

Started as a manufacturer of irrigation equipment by the late K Gopal in Coimbatore in 1961, CRI Pumps is today one of the leading makers of pumps in the world. The company has a global focus with a strong distribution network across 120 countries and it is one of the few companies that exports pumps to China.

RATING: CRISIL A
OPERATING INCOME: ₹1,366 cr (Consolidated figure)
LOCATION: Coimbatore

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