INTERVIEW | RAJAT GUPTA

'They couldn't get any of the real culprits of the financial crisis'

There wasn't real hard evidence but only hearsay and circumstantial evidence, says the former global head of consultancy firm McKinsey & Company

TCA SHARAD RAGHAVAN

The infamous **Rajat Gupta** *insider trading case might not have even been brought to bear if it hadn't happened right after the financial crisis, Mr. Gupta said in an interview about his book 'Mind Without Fear.' He also said that financial market regulation in India is as good, if not better, than that in the U.S.. Excerpts:*

In your book, you mentioned several times that you suspect that the outcome of your case would have been very different if it had happened at any other time rather than just after the financial crisis...

■ I suspect that the case may not have even been brought. There was not really any evidence. They spun a nice story and inundated with millions of pages of this and that. It was meant to confuse the jury. There wasn't any real hard evidence other than hearsay and circumstantial evidence.

For example, take the idea that I called Raj Rajaratnam 16 seconds, or whatever, after getting out of a board meeting. Every board member I know, after getting out of a meeting, they call. Lloyd Blankfein himself said that he makes calls immediately after board meetings. He said he made calls within 15 seconds of the board meeting ending. Everybody does that. I called my secretary, I didn't call Raj. He owed me something, papers, and I said 'get me Raj.' I don't even remember what I spoke to him about. But they spun that story.

You still haven't got an explanation for what happened to your investment in the company you had with Rajaratnam?

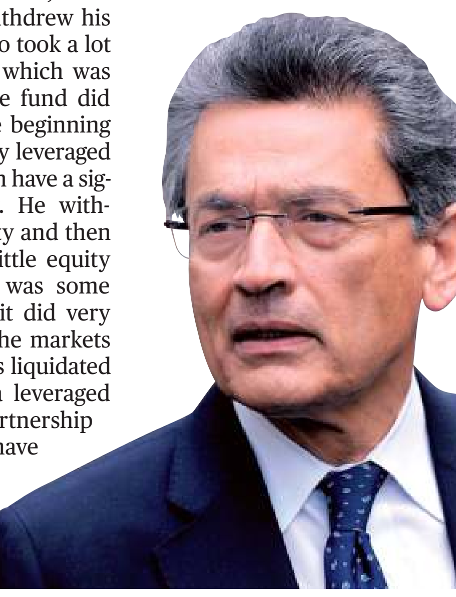
■ It went to zero. See, what he did was he withdrew his equity and he also took a lot of commissions, which was not the deal. The fund did really well in the beginning but it was a highly leveraged fund. I didn't even have a signature authority. He withdrew all his equity and then there was very little equity left. And, there was some growth because it did very well. But when the markets turned, the banks liquidated because it was a leveraged position. In a partnership sense, I would have thought that if he was withdrawing equity, I would proportionally withdraw equity as well. He admits that in a phone call to his colleagues, saying 'I withdrew all my equity, I didn't tell Rajat, we have to make up some story.' This is what he did. And then, he made up another story to me saying the bankers are taking haircuts, so he should go renegotiate with them, and we'll be able to recover our equity. That also never happened. It was following all this that I made the call to him.

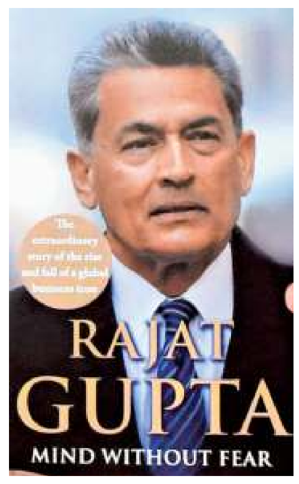
You feel they set their sights on you because it was right after the financial crisis?

■ Well, they couldn't get any of the real culprits of the financial crisis. I was a well-known figure, it was headlines. And what was even worse was that they charged me a week before Rajaratnam's trial and that trial became about me. Half the headlines were about me. It was bizarre. He was never charged on Goldman or P&G. They didn't have any evidence.

The case built against you was on the basis of the supposed tip off you gave to Rajaratnam about Warren Buffet's investment in Goldman. But they didn't charge Rajaratnam on it?

■ No, they didn't charge him on it [who was] the main beneficiary, if we say that there was so-called insider trading! I made zero money. If you assume that I said something on the basis of which he made some trades, they didn't charge him because they had no evidence of passing real information. There was no evidence of an arrangement, any quid pro quo, no evidence of benefit to me. If there was evidence, there was evidence of benefit to him, but they never charged him.





There was no evidence of an arrangement, quid pro quo, no evidence of benefit to me

You are still appealing the case?

■ I lost my last appeal in January 2019, so now I think it's over. I am exhausted with it all and I don't have any appeals left.

What would you say is your main learning from all this? Is it to not do business with friends?

■ No, I wouldn't say that. My main learning would be to be involved in the business you do. I trusted people too much. I gave a large investment and trusted somebody to manage it. You should be more hands-on with what you are doing. I think, in some ways, I could have paid more attention to my personal investments.

My needs and expenses were way less than what I earned through my life. I didn't think so much about money. I had excess, so I invested it somewhere. One should be more careful about that.

There were other mistakes made. I should have never gone back to the Goldman board. I resigned from the board and then they begged me to come back on because of the Lehman bankruptcy. Once you decide to leave, you should not go back. In one taped conversation I said 'a board discussion happened.' Now, there was no inside information there but it was probably not the right thing to say. I shouldn't have said that. There were mistakes.

You also mentioned in your book that you regret not testifying during the case. Could you run through the reasoning for not testifying?

■ I always told my lawyers that I wanted to testify. I kept telling them that I am the only person that knows the whole story, so let me tell the story.

They said yes, but they wouldn't do anything.

A few weeks before the trial I said I am telling you I want to testify and we need to prepare... They were doing all this preparation for cross-examining their witnesses and all. I said I was going to be the central witness, so I also needed to prepare.

They kept saying okay we'll do that, but we really recommend you don't testify. This went on, and their heart was not in it.

I spoke to a number of people about whether I should testify and there was no clear answer.

What was the reason given for you to not testify?

■ They said [for] most people who testify, the history isn't very good.

If you testify and the jury finds you guilty, they will give a harsher sentence because they'll think you lied on the stand.

They said you'll be open to all kinds of questions... My regret is that I got beaten down by them.

So, this book is your testimony?

■ Let me put it this way. This book is the story as I see it and what I was going through. Nothing in that book contradicts any facts about the case. The government will admit everything that is stated. It's the interpretation...

Apart from time lost, do you feel the reputational loss will hurt with regard to your future endeavours?

You know, the reputational loss hurt less than I thought it would. I thought it would hurt a lot more, but it didn't. There are certain things I doubt I could do now because of the reputational loss. Nobody has raised as much money as I have in India for not-for-profit causes.

People have given money if they are rich, but I was able to build a coalition. We raised ₹200 crore to start with for Public Health Foundation of India, we have probably invested about ₹500 crore in ISB. That was based on my reputation and my credibility, mostly.

I don't think I have that available to me now, although many people still believe in me. But I don't think I want to do that any more. I don't have the energy for it.

Strawberries cherry-picked from Nilgiris

Better awareness about the nutrient-rich fruit is driving demand

M. SOUNDARIYA PREETHA
COIMBATORE

The Nilgiris, known for its teas, potatoes, carrots and a range of exotic vegetables, is witnessing farmers going in for strawberries too.

Strawberry plants were grown in the Nilgiris, especially in Thambatty area, as early as 100 years ago, says Premnath Mahalingam, director of Strawberry District.

According to Shiva Subramaniam Samraj, Joint Director of Horticulture, the Nilgiris, in the last three to four years, the area under strawberry cultivation has increased to about 25 acres in the district.

Though strawberry cultivation is risky, demanding investment and maintenance, the market is growing and farmers are slowly getting into it. Farmers get the saplings from different States and some firms import them, too.

Short-duration crop

It is a high-value, short-duration crop and the strawberries picked from the Nilgiris gardens are sold across the country, adds Premchand, director, Samberry Exotics Pvt. Ltd.. He has 7-8 acres under strawberry cultivation and plans to get into contract farming and organic strawberries this year.

Flavour of all seasons: The fruit is harvested throughout the year only in the Nilgiris. • BY SPECIAL ARRANGEMENT

GREEN SHOOTS

Even the varieties grown in Europe and California can be raised in the Nilgiris, it is learnt. The demand for strawberries is high in the southern States and there are farmers who sell in cities such as Bengaluru, Hyderabad, and Mumbai also, says Mr. Premnath, who has two acres under strawberry.

Better awareness among consumers about the nutrient-rich fruit is driving demand, he says. After June, when production declines in the other States, strawberries from the Nilgiris are sold across the country, he adds. A majority of the strawberry produce in the country comes from Mahabaleshwar.

No value addition

However, there is no harvest in that region from June to November. The fruit is harvested throughout the year only in the Nilgiris. Farmers and companies that are into strawberry cultivation in the Nilgiris prefer selling the fruit rather than going in for value addition, he says.

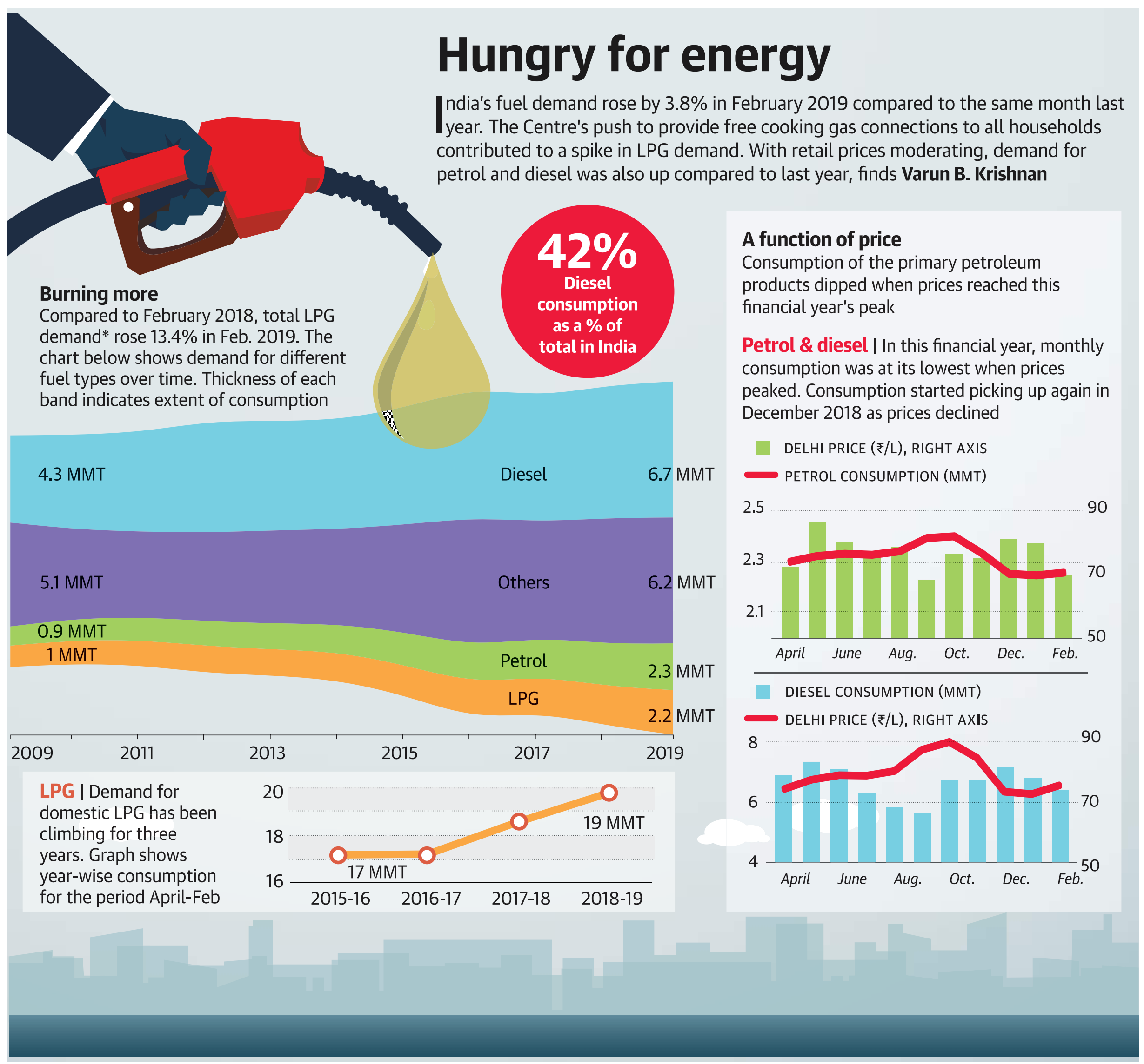
The fruits are of better quality if the crop is grown under controlled conditions. The initial cost of investment is high, though that varies depending on the variety. Farmers should have a polyhouse and take up mulching. They should be able to tie up directly for marketing, adds Mr. Samraj.

The Tamil Nadu government had come out with a scheme to support strawberry farmers. However, the farmers have sought higher financial support from the government, he says.

Mr. Premchand points out that the annual harvest from one acre is almost 10,000 kg. About 30,000 saplings can be planted in one acre and the investment required is ₹3 lakh.

"The Horticulture Department officials in the State visited my farm recently.

"I requested them to provide at least 50% subsidy to farmers for initial investment and financial support to go in for hydroponics and mulching. This will make the strawberry attractive to more farmers," he says.



* Includes LPG for commercial purposes | MMT: Millon Metric Tonnes | Source: Petroleum Planning & Analysis Cell

Lesser clicks, a boon for bricks

Brick and mortar retail revenues set to spurt as e-retail stumbles on stricter FDI norms

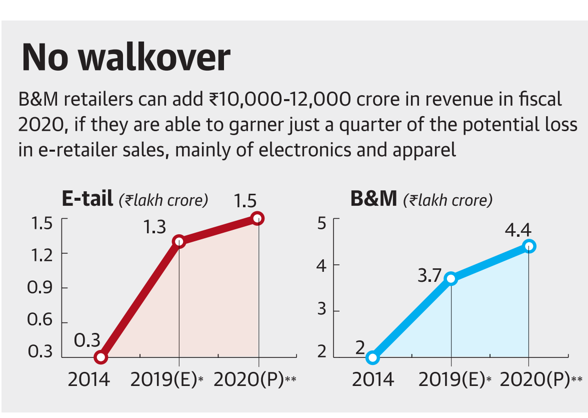
ANUJ SETHI

The Department of Industrial Policy & Promotion's recent clarification on the foreign direct investment (FDI) policy for e-retail has an unexpected beneficiary – brick and mortar (B&M) retail.

The more specific and stringent FDI guidelines require large e-retailers to make changes in their business models in a short timeframe.

These changes come just as e-retail sales have seen phenomenal growth, averaging 40% a year between fiscals 2014 and 2018 and reaching the ₹1 lakh-crore mark. That's thrice as fast as the B&M segment, which grew at a 13% clip to ₹3.2 lakh crore. Deeper market penetration and attractive price-tags – helped generously by foreign direct investments of over ₹95,000 crore in the past four fiscals – drove online sales.

As a result, the organised retail market expanded at a fast pace, with penetration improving enough to tap demand beyond Tier-1 cities, though the organised segment remains but a small part of the ₹60 lakh crore retail market in India.



Source: Crisil Ratings

* Estimated **Projected

Now, following the DIPP clarification, e-retailers have started tweaking supply chains and business models, including adoption of the franchisee model.

This is leading to higher cost of compliance. And growth will temporarily slow as the players repurpose. Incorporating all the changes was not possible in the less than 40 days that the e-retailers were given. The first few weeks of February have witnessed some slowdown in their sales. However, sales are gradually recovering from March 2019, as e-retailers are reorienting business models and supply chain arrangements.

For perspective, the top two players, accounting for about 70% of e-retail industry revenue, generate about half their sales through impacted group companies. And, changes are required across parameters.

In contrast, Crisil estimates that B&M retailers can add ₹10,000-₹12,000 crore in revenue in fiscal 2020 if they are able to garner just a quarter of the potential loss in e-retailer sales, mainly of electronics and apparel. That would crank up their revenue growth 150-200 basis points (bps) to about 19%, compared with Crisil's earlier expectation of 17%.

Poor penetration

While near-term drags would ease gradually, the fact that India's organised retail market is highly underpenetrated at just 7.8% compared with 85% in the U.S., 35% in Brazil, 30% in Indonesia and 20% in China, means there's huge headroom for growth.

Penetration of organised retail, which increased from 6.5% to 7.8% over the three fiscals through 2018, is expected to improve further to 9.5% through fiscal 2021 as the overall organised retail segment grows at 20-22% annually, riding on rising incomes and aspirational demand in Tier II and Tier III cities. An analysis of 87 B&M retailers rated by Crisil shows credit profiles are slated to benefit from healthy growth prospects and improving credit metrics. For instance, the debt-to-EBITDA ratio of B&M retailers, which improved to about 2.1 times in fiscal 2018 from 3.7 times in fiscal 2016, is likely to improve further to below 1.5 times by fiscal 2021.

Faster revenue growth, driven by household consumption, store roll-outs with focus on private-label revenue, and increasing penetration of B&M retailers in Tier II cities, will improve cash flows and obviate the need for substantial debt addition to fund store expansions.

To summarise, the policy clarifications have helped partially level the field for B&M retailers.

(The writer is Senior Director, CRISIL Ratings, CRISIL Ltd.)

A story of grit and determination

Book distils Sanmar's instinct for dealing with adversity

K. BHARAT KUMAR

In a world where start-ups are seen as glamorous icons of business, it sounds almost clichéd to talk of traits needed for success.

But it becomes awe-inspiring when you peep into the history of an industrial group – that traces its roots to an environment more than 100 years ago – and find that business acumen, self-belief, sheer grit and occasional serendipity all contribute to the success of a venture.

In the book 'Integrity and Excellence, The Sanmar Story,' author V. Sriram takes us on a journey tracing The Sanmar Group's fortunes from the early 20th century till date.

Serendipity is when local rulers in the 13th century excavate a canal from the confluence of a couple of rivers, making it flow through the area from which the group's promoters hail. This diversion caused fertility in a traditionally arid region, resulting in prosperity.

Business acumen is when the founding father of the group, S.N.N. Sankaralinga Iyer made his family's banking business a formal organisation and invested in other opportunities – from salt pans, to ink and rubber. The last mentioned was through a company that was acquired. In an endeavour to make this profitable, his son K.S. Narayanan took the first step into chemicals, with which he and his descendants would remain associated forever, the book says.

One lingering theme in the book, across generations, times and geography, is that every other venture of the group has faced seemingly insurmountable obstacles – be they raw material problems, supply of power, delay in approvals, political interference or economic upheaval. Grit, focus and self-belief played a role in seeing these through, time and again.

Of interest is the story of its Cuddalore plant in Tamil Nadu. The group chose the location – declared an industrial area – to expand its PVC (polyvinyl chloride) capacity. When word got out regarding its plans, a rival group – that had wanted to set up a thermal plant 20 years prior, but which did not take off – made life difficult, the book says. The group had to deal with local mobs 'threatening life and limb.' "Politicians, civil servants, bankers, lawyers, people whose company we do not court normally, all came into play."

At one point, a ship with imported raw material arrived but had to wait at sea for months. The group believed enough in the opportunity and spent ₹17.50 crore per month on this, till issues were resolved.

In all, a must-read for entrepreneurs who believe technology alone can solve all of the world's problems.