
Vishambhar Saran, CEO, Visa Steel, at the ferrochrome tapping unit of his plant in Odisha.

VISA STEEL:THERE AND BACK AGAIN

How Vishambhar Saran learnt to roll with the punches.

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"You didn't go to the bathroom, did you?" That's the punch line to what some call an apocryphal story about how Vishambhar Saran won a Chinese contract for Tata Steel. It's all true, I'm told by Saran and some of his peers. Saran was then in charge of new business, international trading operationss, and business development, and was in China to woo one of the largest ferroalloy plants in Jilin province in Northwest China.

Negotiations were preceded by a formal dinner, during which the Chinese told Saran that they had no idea about Indian ore, since they had not bought it before. A while later, Saran took a break to use the facilities, and when looking out of the window, saw a stockpile of chrome ore. His decade-plus experience in Tata's mines, plus a childhood spent with mining families in Uttar Pradesh and Odisha, kicked in. He recognised the ore as coming from a Tata mine, which had possibly been sold through intermediaries. It meant that the Chinese officials had no idea about what ore they were using.

Saran went back to the dinner table, and at an appropriate juncture, offered to sell 20,000 tonnes of ore at Rs 300 a tonne. The Tata team had earlier decided to offer the ore at between Rs 160 and Rs 180 a tonne, and allow themselves to be beaten down to Rs 140. Saran's cool doubling of the price sent the team into shock, and one of them tried to kick Saran under the table, which he ignored. Some back and forth later, Saran reluctantly agreed to sell at Rs 260 a tonne, and the deal was wrapped up. His colleagues later asked Saran what he thought he was doing. Cue the punch line.

It's a great dinner-table story, sure. But it's also a snapshot of the kind of person Saran is. He comes across as something of a maverick, but that's a persona based on cool reason and logic. "Unlike a lot of entrepreneurs who take calls on just gut feel, Saran combines his instincts with logic and good sense. It's something that most businessmen don't know how to do," says Saran's friend and chairman of the RP-Sanjiv Goenka group, Sanjiv Goenka.

Saran has worked as an employee, as an entrepreneur, succeeded, failed, started again... His story should make it to business textbooks as a lesson on how to roll with failures, pick yourself up, dust yourself off, and carry on.

Visa Resources is Visa's international commodities trading business, which deals in bulk commodities.

At the height of his success, Saran had offices in London and Switzerland, was making between $800 million (Rs 5,053 crore) and $1 billion in revenue a year through his trading company, Visa Comtrade. He travelled to meetings in a six-seater Lear Jet. He had set up a listed company, Visa Steel, with a market cap of some Rs 700 crore, and manufacturing plans included a 600 MW power plant in Chhattisgarh and a 0.6 million tonnes, billion-dollar plant in Odisha to produce special steels, ferroalloys, and coke.

But then came the downturn, and the jet had to go; the showpiece headquarters in Switzerland were shut; and the company moved to far more modest premises in Singapore and Dubai. It's been a long journey for a man who started his career in what he calls "the armpit of a company"—Tata Steel's open-cast chrome mines in Odisha's Sukinda Valley.

Today, standing at the furnace of his 600-acre greenfield steel factory in Kalinganagar, Odisha, Saran looks back at his somewhat volatile career, and admits that he has got miles to go before calling it a day. "My plan is to run five businesses under Visa Group: traditional international trading businesses, and under Visa Steel, speciality steel, ferroalloys, coke, and power," he says, adding that speciality steel could become a Rs 2,000 crore business.

"MY PLAN IS TO RUN FIVE BUSINESSES UNDER THE VISA GROUP: TRADITIONAL INTERNATIONAL TRADING BUSINESSES, AND UNDER VISA STEEL, SPECIALITY STEEL, FERROALLOYS, COKE, AND POWER." —VISHAMBHAR SARAN

SARAN'S JOURNEY CAN be traced back to his undergraduate days at Banaras Hindu University, when he was sharing a hostel room with V.K. Narang, the scion of a Dhanbad-based mining family. Saran had signed up for a degree in mechanical engineering, but Narang convinced him that mining engineering would be far more lucrative. Saran even remembers the check-patterned bedcover in their room when recalling Narang's vivid descriptions of how coal mines were actually excavated. More important, Narang insisted that mine managers dictated terms, owners had to follow their lead, and a mining engineering degree paid more than other technical degrees. Saran was swayed, and switched to mining.

Reality, Saran realised after he got his degree, was far different for a raw recruit. It was 1964, and Saran, a fresh graduate, joined Tata Steel's raw materials division. His first assignment was in southern Bihar (in what is now Jharkhand), and then in Sukinda. Today, Sukinda, which has 97% of the country's chromium reserves, is among the most polluted cities in the world. Back in the 1960s, it was "beyond horrible", says Saran.

Rs 1558.6

CRORE

VISA STEEL'S TOTAL INCOME FOR THE YEAR ENDING MARCH 2014

Employees had little to do in the evenings other than play cards in the company bungalow, and often, when they sent out for cigarettes or chips, the person deputed to go to the village would return in a few minutes, because a bear was sitting by the gate.

Disheartened, Saran planned to quit, but a senior Tata manager convinced him to stay. More important, he told Saran that the previous mine managers had failed, and this was his chance to shine. Saran took the bait and began taking an active interest in business operations.

He discovered that the Sukinda mine only produced 23,000 tonnes of chrome ore. (Chrome ore is used in making ferrochrome which, in turn, is used in making stainless steel.) Under the surface, however, were millions of tonnes of the precious ore. But his pleas to superiors to increase productivity went largely unheard. Undeterred, Saran wrote to Russi Mody, just then appointed managing director of Tata Steel, spelling out how he could make Sukinda the jewel in Tata Steel's crown. "I got a call on the wireless from Mody's office, asking me to go see him," recalls Saran, explaining that it was a huge break from protocol for the big boss to ask to see a lowly mine manager.

It was 1974, and Saran made the trip to Mody's Kolkata office, excited at the thought of meeting the new managing director. As he entered, Mody instructed him to meet S. Raghavan and Aditya Kashyap, then in charge of procurement and business development. "If you can convince them, come back. If not, take the three o'clock back to where you've come from." Undeterred, Saran headed off to meet the two. He says the meeting was like college seniors hazing a freshman. "It was worse than boarding school," he recalls. "They were calling me names." He was almost in tears at this treatment, but persisted in telling them that Tata Steel was making a mistake in not selling Sukinda ore in the open market. Raghavan mocked him, saying the Sukinda grade was "shit", and that nobody would buy it. Stung, Saran blurted out that Ferro Alloy Corporation would buy.

It was a shot in the dark, since Saran didn't have a clue about Ferro's requirements. Continuing their bullying, Raghavan threatened to call the Ferro Alloy chairman, Umashankar Agarwal. When Saran stood his ground, Raghavan actually called Agarwal, claiming to have some 50,000 tonnes of low-grade ore to sell (double the annual production). Agarwal agreed immediately, and Raghavan and Kashyap were totally silenced. After some perfunctory chatter, they sent Saran back to Mody. "I know you've convinced my guys," said Mody even before Saran had entered the room. "If you achieve 50% of those targets, the sky's the limit for you at Tata Steel." As indeed it was, till internal politics made him realise it was time to leave.

Visa steel's many arms: a power plant, a steel plant, and a ferrochrome plant, all at Kalinganagar, Odisha.

Saran aimed high even after he left Tata Steel and set up as a commodities trader.

That’s when he crossed the line that most traders draw: never to have skin in the game. Most international commodities traders function as indenting agents. They go long or short (enter futures contracts betting that prices will go up or down), and make their money either way. It works like this. A trader anticipates prices of a commodity to rise, and so goes long—essentially, he buys at a lower price and sells when prices go up. Once the sale is finalised, the trader is protected even if prices fall and money hasn’t actually changed hands. In a short trade, a trader sells a futures contract in expectation of prices declining.

The problem is when the trader decides to ship the material before finalising a sale, assuming that prices will go up more. And that’s what Saran did. He had half-a-dozen shipments, each with at least 150,000 tonnes of mineral—and no buyer. It had happened earlier with individual shipments that nobody was buying. Saran says all he did then was to “load it on to my own account and stock it for sale” later when prices were still up. But with multiple shipments and prices falling, Visa was in trouble. In some cases where he had provisional buyers, they “inexplicably backed out”, leaving him holding several million tonnes of mineral for which he had to pay.

That alone would have meant curtains for a commodities trader, but Saran was in far deeper. In the early 2000s, he had decided to enter manufacturing as well and put into practice the lessons he learnt at Tata Steel. He set up Visa Steel, a Rs 6,000 crore greenfield unit at Kalinganagar in Odisha, which included a coke unit, a special steels one, and a ferrochrome plant. Saran’s big idea was that Visa’s international trading operations would support the manufacturing side till the factory went onstream and began making its own money.

Except that didn’t happen. Of Visa’s greenfield manufacturing businesses (coke, special steel, and ferrochrome), two have been choked because of a dearth of raw materials; only the coke business has been profitable. And the global correction in equities, commodities, and oil prices, as well as dramatic currency fluctuations, contributed to a loss of Rs 67 crore in 2008-09, compared to a profit of Rs 43 crore the year before.

The crunch for Visa's ferrochrome business came when there was a delay in the Supreme Court's renewal of Tata Steel's Sukinda chromite mine lease. (Only two companies in India are allowed to sell chrome ore, and close to 98% of chrome ore is found in Sukinda). Sukinda, a key supplier to Visa, resumed operations earlier this year, and Saran hopes to ramp up ferrochrome production to full capacity of around 180,000 tonnes a year. Coke and ferrochrome are raw materials for special-steel, so a problem in these two units could spell trouble for Visa's special-steels business.

The Visa's special-steels business was set up to tap the growing demand for products such as auto-grade steel. But two things happened which Saran didn't expect. First, iron ore prices fell globally from $160 levels to $60, while the prices of domestic iron ore marginally increased. The other was that, despite a written assurance from the government, he did not get a lease for an iron ore mine, which would have fed the business. Saran had not anticipated the impact of the shortage of raw material, and a turnaround in his special-steels business will depend on getting a captive mine.

Typically, Saran is optimistic. The MMDR (Mines and Minerals Development and Regulation) Amendment Ordinance issued this January allows for ore mines to be granted through auction. Saran feels that unlike coal (where power, steel, cement, aluminium, and ferroalloy companies all compete for leases), iron ore mines are restricted only to steel, so getting a captive mine is still possible.

Navin Sahadeo, lead analyst for the steel sector at Edelweiss Financial Services, doesn't express much optimism for the industry in the near term, due to its exposure to global currents. "As we speak, prices are below $400 a tonne and demand in China is lower than it has been in years," he says. While prices of steel in India have fallen to around $500 a tonne, they are still at a premium of between 8% to 10% over foreign prices, and that's not good for the trade.

The shortage and the timing of setting up a plant right when his trading went off-kilter left Saran saddled with some Rs 5,500 crore of debt. Steel analyst Anirban Dutt says that the lack of backward integration into iron ore, chrome ore, and coking coal is hurting Visa and impacting its earlier investments in pig iron plants and coke oven batteries. “In fact, at current low commodity prices, the very rationale for making these investments may become questionable,” he adds. Coke prices have fallen by around 33% over the last year and iron ore by almost 50%, and the current high debt leverage of 6.57: 1 is unsustainable. As of now, Visa has to make Rs 225 crore in interest payments every year, and Saran and his team have to come up with a turnaround plan that will determine how the future plays out for Visa Steel.

By 2012, Visa was deep in the red and Saran had no option but to enter a corporate debt restructuring scheme that his bankers insisted upon. In this, Visa was following peers such as Ruchi Power & Steel and Mackeil Ispat & Forging. In any CDR scheme, a substantial amount of the company’s assets are frozen till the Reserve Bank of India and the lenders are satisfied that the company will be able to pay back its debts.

Meanwhile, Saran initiated divestments in order to pare down debt. Steps included selling 49% of Visa Coke, the coke oven business, to U.S.-based SunCoke Energy for Rs 368 crore in 2012. Typically, though, the man shows no dejection in the face of mounting debt. “The moment you get demoralised, defeat is inevitable,” he says.

Does he hope that growth in domestic demand will revive the steel sector? Saran doesn’t say much about this, but Sahadeo says that the latest stats show a growth of barely 1%. Internationally, too, the figure is little better. Big players such as Tata Steel and SAIL, which have captive iron ore mines, are in trouble because prices aren't going up anytime soon. In fact, global mining giant Rio Tinto recently announced that it expects 85 million tonnes of steel to exit the market because price slumps are making it too expensive to continue production. If that's the state of the large players, imagine what it's like for a steel startup with a small balance sheet.

97%

OF THE COUNTRY'S CHROMIUM RESERVES CAN BE FOUND IN THE SUKINDA MINES.

Ever hopeful, Saran estimates that it costs between Rs 1,000 and Rs 1,500 to mine a tonne of iron ore, and the landed cost per tonne is between Rs 4,500 and Rs 5,000, so there's an arbitrage of Rs 3,500 a tonne. Once the government opens up iron ore for players in Odisha and his speciality steels production starts operations, and if he needs 1.8 tonnes of iron ore to make one tonne of steel, his Ebitda per tonne will go up about six times. "Then we become a highly profitable player without making any other change," he says. A possible alternative, says Dutt, is to start a demerger of the special-steels business, which may help infuse some capital in the parent listed entity.

Saran managed to regain his balance after the very first stumble in trading, and got his factories up and running despite regulatory and political issues. When I ask him about his ability to bounce back, he smiles and tells me a story. It was the summer of 2009, and Saran was lunching with his sons and Bruno Furrer, a friend and fellow commodities trader, at a lakeside restaurant in Zurich. During the meal, Furrer smiled at Saran's sons and said: "You guys are really lucky."

Remember, that was when Saran's businesses were in deep trouble; commodities trading had taken a beating because of depressed prices globally, and manufacturing needed capital he was unable to pump in. Saran wondered if Furrer had been in the sun too much, when his friend explained. "When you guys came into this business, you just saw one way of running it: Buy today, sell day after, and make a profit. But your father has seen upheavals and he will help you ride through it."

Today, with manufacturing struggling to come out of the trough it is in, and commodities still a gamble, it's still not clear if Furrer's words were graceful consolation or a trader's instinctive view of the things to come.