A dream run

The Rs5,000-crore VISA Group is leveraging its trading strength to perform in the steel and power sectors too

In 1994, when the Kolkata-based VISA Group chairman Vishambhar Saran (Agarwal), who was director, raw materials division, Tata Steel, since 1988, decided to quit the company to become an entrepreneur, the higher-ups were taken aback by the decision. Saran had loyally served the company for 25 years, bringing in many innovations and introducing a number of cost-cutting procedures for procurement of raw materials, that had made him the most favoured top executive in the iron and steel behemoth. Chairman Ratan Tata himself was quite surprised by Saran's decision. Tata had called him aside and asked, "Why do you want to leave us? Is it money, position and perks that are bothering you? How about reconsidering your decision?"

Saran had politely refused Tata's request and said, "I want to be on my own." Saran had joined the raw materials division at Tata Iron and Steel Company (TISCO) in 1969 soon after graduating in mining engineering from Banaras Hindu University (BHU). Between 1969 and 1994, Saran had played a major role in mechanisation and expansion of the company's captive mining and mineral beneficiation operations, turning the mines into a profit centre. He had played a key role in the acquisition of a state-run ferro alloy plant in Orissa. He was also instrumental in getting mechanised operations at Paradip port, where much of the company's raw material imports landed. This, in turn, resulted in substantial savings for TISCO in ocean freight and increased productivity, both at Paradip and subsequently at Haldia port.

"As a result of his performance, Saran earned a lot of respect within the organisation, and credibility and confidence both in the national and international markets," says S.C. Saxena, an ex-colleague and former managing director of Jessop Engineering and Tata Martin Logistics International (TMLI). So, when he plunged into the unknown territory of business, armed with his savings, a capital of Rs10 lakh and a small office in Kolkata, most of his friends and well-wishers in Tata Steel were sceptical about his decision to quit Tata Steel to become an entrepreneur. Yet, there were some, including the redoubtable chairman of Tata Steel, Russi Mody, who thought highly of him and knew that he had the mettle in him to succeed.

PHOTOS: SAJAL BOSE

Saran: a hands-on man

After leaving Tata Steel, Saran's first assignment came in the form of a consultancy with a German steel company. After a couple of years, Saran had enough expertise and clients to open a mining resource investment office in Switzerland, and went on to open offices in London and Singapore as well.

Since then, the Rs5,000-crore group, which was primarily set up as a consultancy firm, started active shipping and trading of raw materials and products, including carbon products such as thermal coal, coking coal, chrome ore, concentrates, iron and manganese ore, non-ferrous materials such as bauxite and alumina, ferro-alloys, pig iron and steel, as well as imports from and exports to Australia, China, India, Indonesia, South Africa, the Middle East and Europe.

VISA Comtrade, the trading arm of the group, procures raw materials and products, charters vessels, arranges for insurance and warehousing at various ports, and markets to customers internationally. VISA does not function like a typical indenting agent or middleman. It procures the commodity after opening a letter of credit (LC) in the bank and imports, warehouses and supplies to the customer. The company takes the responsibility of procurement to delivery. "This gives us credibility," says Saran. "Commodity is not a money-making tool for us. We advise customers when to buy the right product and at what price. We leverage our extensive products and industry knowledge in the highly competitive global market," he adds.

In the international market, VISA faces competition from Glencore International AG and Nobel Group, while in the domestic market, it has big competitors like Tata Steel and Jindal Steel. "However, VISA Group has been able to maintain its identity through a high level of professionalism of its management staff and bagging new clients on a regular basis," says Saxena. Of the total 1,500 group employees, a fairly large number comprises professionals with technology and business backgrounds who keep the business fine-tuned.

"This knowledge has helped the group to grow exponentially," says V. Bansal of Morgan Stanley. The group, fuelled by its ambition to grow, has entered the steel and power sectors as well. According to Vishal Agarwal, managing director of the group company VISA Steel, a steel mill has been partially set up on 525 acres of land at Kalinganagar in Orissa. The Rs4,500-crore project is a 65:35 joint venture (JV) with Baosteel, China's largest steel producer and VISA's chrome ore buyer for many years. This is Baosteel's first manufacturing venture in India and its third one internationally. The project includes pig iron, coke oven, ferro chrome, sponge iron, power and stainless steel plants.

According to Saran, Kalinganagar offers a logistics advantage with the Talcher coal fields situated 110 km away, Daitari iron ore mines located 30 km away, the Keonjhar and Barbil mine 100-150 km away, the Sukinda Valley (which is home to almost 99 per cent of India's chrome reserves) just 35 km away, Paradip port 120 km away and Jakhapura railway station 2 km away. Says Agarwal, "The company plans to integrate backwards to the mining of iron ore, chrome ore and coal." A chrome ore deposit in Orissa is being developed through Ghotaringa Minerals Ltd, a subsidiary company, and has a share in the 54 million tonne reserve at Patrapara coal block in Talcher, Orissa. At Golagaon, another location in Orissa, the company's 10,000 tpa (tonnes per annum) plant produces high-grade chrome concentrates through the beneficiation of low-grade chrome ore by gravity separation.

In two phases

Agarwal has signed an MoU with the government of Chhattisgarh for setting up a 2.5 million tpa integrated steel plant at Raigarh in two phases of 1.25 tpa each with a captive power plant. The company has already started acquiring land for the Raigarh project, which will require an investment of Rs8,000 crore over the next five years. "The groundwork for this project will start before the year ends," says Agarwal.

The JV company, VISA BAO Ltd, has already made considerable progress in setting up a 1.5 million tpa unit for producing ferro chrome and specialised steel. The JV has already invested Rs1,300 crore in the first phase of the project so far and will spend another Rs700 crore in 2009-10 and 2010-11. The company raised Rs200 crore from the capital market in February 2006 at Rs57 per equity share to partially fund the Kalinganagar venture, and the IPO received a good response. According to Vallabh Bhansali of stockbroking firm Enam Securities, which was the lead manager to the issue, "At the time of the issue, VISA was already a leveraged group and Vishambhar Saran with his three well-educated sons, Vishal, Vikas and, Vivek, who manages the international trade through VISA Comtrade, knew their business end to end."

VISA Steel's sales showed promise during 2008-09 with the figure touching Rs1,040 crore (Rs682 crore in 2007-08). However, due to pressure on steel prices globally, the company posted a net loss of Rs66 crore in FY09, against a profit after tax (PAT) of Rs43 crore in the previous fiscal. Pressure on steel prices impacted the first quarter results too, with sales of Rs254 crore (PAT Rs10 crore), against sales of Rs255 crore in the corresponding period the previous year (PAT Rs48 crore). A PINC Research report observes that despite flat sales and lower raw material cost, operating profit witnessed a decline due to high cost inventory of coking coal. "Increased production propelled sales volumes across all the products," say research analysts Vineet Hetamasaria and Faisal Memon. "However, the impact of higher volumes was offset by lower realisations across products." Due to VISA Steel's expected volume growth and lower raw material cost, the researcher duo is positive on the stock, which is trading at around Rs36 currently.

Vishal and Vikas Agarwal: know their business end to end

VISA Group plans to set up coal-based and thermal power plants at Raigarh in Chhattisgarh (270x4 MW), Cuttack in Orissa (1,080 MW), Pipavav in Gujarat (1,000 MW) and Sini in Jharkhand (2,500 MW). Headed by Saran's second son Vikas Agarwal, VISA Power Ltd has already acquired coal mining rights in Chhattisgarh and land acquisition is in progress (project cost: Rs2,600 crore). In Orissa, partial land and water allotment has already been made to the company (project cost: Rs5,500). In Pipavav, the company plans to generate power at a port-based plant using imported coal. "For this, we are in the process of acquiring an Indonesian coal mine," says Vikas Agarwal. The company has already signed an MoU with Pipavav port authorities for coal imports. In Jharkhand, land acquisition and water allocation are expected shortly.

For the 62-year-old Saran, whose mainstay continues to be trading, and who says he was never a dreamer but a hands-on man, every business operation appears to be a dream run now. For someone who came from the small town of Faizabad in eastern UP, making it big is good. "But making it bigger to become a Rs15,000-crore to Rs25,000-crore group will be another challenge," he says.

◆ DEVENDRA MOHAN