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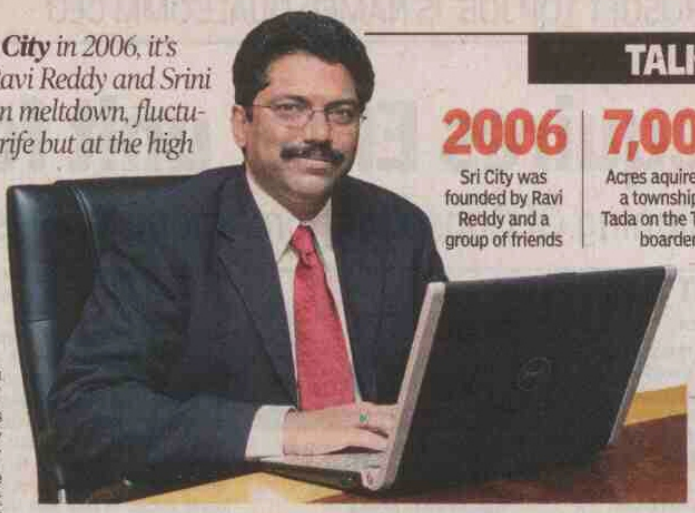
ROLLING WITH THE PUNCHES

Since they conceptualised ***Sri City*** *in 2006, it's been a rollercoaster ride for Ravi Reddy and Srini Raju. Dips include the Lehman meltdown, fluctuating dollar and Telengana strife but at the high end are investments from global giants Kellogg's, Pepsi and others. From now, they say, it'll be a smooth ride*

TIMES NEWS NETWORK



Ravindra Babu Sannareddy, founder MD of Sri City.

TALK OF THE TOWN

2006 Sri City was founded by Ravi Reddy and a group of friends

7,000 Acres aquired for a township in Tada on the TN-AP boarder

₹12,500cr Total investment by 100 companies from 25 countries. Nearly 20,000 direct jobs created

8MW Solar power plant to take care of all non-industrial requirements

Challenges:
- Trouble-free land acquisition
- Capital
- Attracting marquee clients

Action:
- Adopted a consensus approach, voluntarily offering more money to the land owner, on a formula that has now became mandatory
- Raised three rounds of funding
- Attracted 100 clients

Results:
- Acquired nearly 7,000 acres and the expansion continues
- Fully invested, does not need any more capital to grow
- 50 Sri City clients earn more than a billion dollars in revenue; 12 are $10-billion-plus corporations

A barrage of phone calls from the Andhra Pradesh chief minister's office interrupts our meeting constantly. They were to confirm the chief minister's keenness to be part of the ground-breaking ceremony for Pepsi at Sri City. "I am getting used to these now," says Ravindra Babu Sannareddy, founder MD of Sri City.

The past few weeks have been hectic. Sri City, the multi-product 7,000-acre SEZ about 55km north of Chennai (in Andhra Pradesh), has witnessed ground-breaking ceremonies or announcements for factories by global titans like Kellogg's, Cadbury and Isuzu, among others. Pepsi will start construction of its factory in the next few days. "I need a break. I've planned a trip to a naturopathy joint near Bangalore in January to rejuvenate," Reddy says.

The 50-year-old civil engineering graduate turned techpreneur entered the Indian business scene in the late 1990s when he acquired a listed plastics firm and reverse merged it into Megasoft for a shot at the IT space. "I was jockeying between the US and India and finally came back to India for good in 2001," he says. "After 14 to 15 years, you lose the fire for IT. We (Megasoft) ventured into the products space but did not succeed. I stepped down from all executive roles to start Sri City," he says.

Sri City was born in 2006. "When we zeroed in on the location, there was not a single college in the area. Now Sri City is the base for 100 companies from 25 geographies that have invested nearly Rs 12,500 crore," he says. The residents of Satyavedu, where Sri City is located, were used to seeing just one car a day at best. "Today, there is a carmaking unit coming up here," Reddy says.

Reddy's friend Srini Raju came in as a white knight for Sri City. Raju is better known as the serial entrepreneur who founded Satyam and Cognizant, and now runs Peepul Capital, a private equity fund. Raju put in his personal savings to get Sri City on its feet. "We jumped in, and then sat down to draw the business plan," Raju says.

But the Lehman collapse of 2008 sent all business plans into a tailspin. Land sharks sullied the SEZ concept; banks began looking at it as real estate and developed cold feet. "We had raised private equity funds in June-July 2008 and repaid all our bank loans. Post the meltdown, the same banks said no to fresh loans. Things almost came to a standstill in early 2009. We just kept floating, waiting for the tide to settle," Reddy recalls.

Many businesses that had announced plans for India held back investments. Strategies were re-written. From being positioned as an industrial park, Sri City changed to an integrated city. "We knew we had a great location/product. Our positioning was near-shoring Chennai, which was becoming tough due to land availability. We wanted a few marquee customers who would become brand ambassadors. And we were lucky; we got several," he says.

Of its 100 customers, more than 50 are billion-dollar entities and 12 have revenues of more than $10 billion.

Between Raju and Reddy, roles are defined. While Raju uses his planning and financial skills, Reddy is the operational head. They have raised two rounds of private equity from Ocgziff PE Fund, Credit Asia Capital and Bedrock LLC. When Credit Asia exited, its stake was picked by Raju. Today, Raju, Reddy and their friends hold 75% to 77%, while PE investors hold the rest.

> This (Sri City) is the most exciting business for me, ever. I have no intention to sell out. Sri City will be my trophy investment, even after me
>
> **Srini Raju, chairman,** SRI CITY

Critics attribute the success of Sri City to the patronage of former Andhra Pradhesh chief minister Y S Rajasekhara Reddy (who died in a chopper crash in September 2009 en route to inaugurate facilities in Sri City), but Reddy says there's nothing to it. "We are from the same region. We liked his policies. I would have met him four or five times, there is nothing beyond that," Reddy says.

Just when things appeared to settle and fresh capital flows started, the Telengana trouble surfaced. It took a while for investors to realise that Sri City is far from the trouble spots. "2013 has been a litmus test. With wild rupee swings, economic slowdown and the Telengana confusion, we thought we were in the pits. When we signed marquee names like Kellogg's, Isuzu and Pepsi, we knew the business had reached its inflexion point," Raju says.

"The problem with such political agitations is that it ravages the economy of the entire state, albeit temporarily. Fortunately, Sri City's positioning is to grab business that is to come to Chennai, which is far from the strife," says Rajesh Babu, chief consultant at RECS Group, a real estate consultancy.

Reddy and Raju are looking beyond. "The good news: We are fully invested and do not need more capital," Raju says. "It is almost seven years since I invested. The return on investment is low but my investment is not for exit or returns." While profitability numbers were withheld, it is learnt that Sri City is the least leveraged private infrastructure business. It was zero debt as of September 2013.

"I invested in Sri City to do something tangible. This is the most exciting business for me, ever. The last was when I founded Cognizant," says Raju. "I have no intention to sell out. Sri City will be my trophy investment, even after me."