

THE RISE AND FALL OF SUBHIKSHA.....?

“the giver of all good things in life”

* Mr. RAVINDRA BABU S.

ABSTRACT

Subhiksha was India's largest retail chain based on number of stores. In December 2008, it shut down over 90 stores around the country. Subhiksha, which had started as a single outlet in Chennai grew rapidly and in a span of 11 years, the company had over 1,600 outlets throughout the country. The company had been facing a financial crunch which it revealed publicly only in January 2009 though it was not in a position to pay rents or employee salaries or other outstanding bills. The management of Subhiksha said that the problem faced by the retail chain was due to its inability to raise enough equity and was not because of its business model, which was very efficient. Experts too felt that the crisis faced by the retail chain was due to the management's decision to not opt for an Initial Public Offering. Subhiksha's operations have come to a standstill due to non-payment of employees salaries, huge debt burden and arrears to suppliers, and the company is seeking liquidity infusion to the tune of Rs300 crore to revive its operations. The company would be able to raise Rs300 crore, required for meeting operational expenses, only after completion of the CDR process, ending July 31st 2009 managing director R. Subramanian said.

Keywords : Entrepreneurship, marketing strategy like low cost strategy, retail industry, porters model, Business environment, aggressive expansion strategy, Ethics and corporate governance

“We are a golden egg laying duck, we are in trouble. We need their (*bankers and lenders*) support and upon getting it we will restart operations and repay all debt. It is not easy, but we have to make it happen.” says R Subramanian (fondly wants to be referred as **RS**), Founder, Promoter, and Managing Director of Subhiksha Trading Services, which owns Subhiksha—the India's largest (in terms of number of stores) , food and grocery, small format, neighbourhood, convenience, discount retail chain. Subhiksha which means “**the giver of all good things in life**” (prosperity) in Sanskrit is on the verge of bankruptcy today, as on 2 Feb, 2009.

The company said it was unable to pay the salaries and arrears to its 15,000 employees since October 2008, While announcing that all its 1,600 stores would remain closed. The company, burdened under a huge debt, recently said that it immediately needs Rs300 crore.

After studying at IIT Madras, RS joined IIMA. He was very keen on taking on marketing and also the company he wanted to join (POND's based in Chennai). He did his internship in Ponds later got placement offer. By that time Unilever acquired Ponds, RS decided to join Citi Investment Banking instead. After working with them for fifteen days, he thought he wanted to do something on his own in life, RS quit Citi.

* Senior Lecturer, SRN Adarsh College, Chamarajpet, Bangalore.
Email: ravindrababu2009@gmail.com Mobile : 98805 25788

He came in contact with Mr S Viswanathan, who used to run Enfield, the motor company in Chennai. Mr Viswanathan whose company was in huge loss failing to market its bikes compared with the entry of lighter, cheaper and fuel efficient Japanese bikes. RS entered into the marketing division and started to manage the sinking ship. As RS says "I got a sense of dealing with people, handling operations, working with institutions to raise money. Macro stuff mostly. I don't know how good a job I did, but I learnt a lot". All these efforts paid off and Enfield sales started to improve. At this point Enfield was taken over by Greaves Eicher and Viswanath made a good deal out of it. RS thought it was the right time to move on. Viswanath asked RS what he wanted to do and RS replied "A financial service company".

Mr Viswanath asked RS about his experience and finances for which he replied that he had neither any. Mr Viswanath agreed to give two and half crores and gave initial payment of 50 lakh and asked RS to repay the money by the buy back of shares.

In 1991 that is how Viswapriya Financial Services (VFS) came into existence. According to RS says ICICI securities followed the second 1 month latter and Citi bank the third after about 2 months. One proud moment for VFS was when it started the IPO financing which RS tells with pride" (IPO Financing) which was the brain child of Viswapriya. Any bank which does IPO financing today follows the structure that we created in 94."

VFS made a lot of money. The stock markets were doing very well during the phase 94 – 96. During this period the net-worth of the company grew from 2.5 Cr to 80 Cr. During this period VFS financed close to 1,500 Cr. Each loan was for the period of IPO, 2-3 months so there were many lending cycles. By 1996 VFS had large amount of money, there is staff, but not much to do as the markets were weak and there was no one to lend to. So RS decided to

put the money into real estate(property). By this funds were deployed, he was getting good returns but still RS felt "I am not well occupied .My team is not well occupied". Then RS looked at various options like software then finally switched on to retail.

RISE OF SUBHIKSHA

Two things drove the team to accept retail, one it was a service sector and there were hardly an organized retail while the middle class was reasonably large. The exit barriers were low and competition was very weak.

Retail consists of two main costs space and people. In the developed countries retail happens outside the city limits where the space is relatively cheaper therefore and very body has a car to drive down and shop moreover people are expensive. They follow the "very low staff, large space format"

But the situation in India, like developing countries it is not the same people are much cheaper and space per sq ft are expensive therefore what RS tried to do was to look for a small space but a overmanned format. To compete with the local retailers he thought to deliver the best price and a very good SCM.

In 1997 the first store came up in Chennai was created with a unique "neighbourhood" store strategy(with the theme," **why pay more when you can get it for less at Subhiksha**"). The primary focus was "**aam aadmi**" i.e average middle class Indian person. An initial investment of Rs 5 lakh was made in the new company. The first two years was very tough going for Subhiksha. By 1999 It made some money and 10 stores were there and the best part of it was the model was working. By 2000 there were 50 stores in Chennai and ICICI venture funded for a 10% stake.

By 2004 Subhiksha started to expand outside Tamil Nadu. The expansion was done in different phases. Phase I – AP, Karnataka, Gujarat Phase II – Delhi , Bombay . Then it started to concentrate on the metropolitan and 2nd and 3rd tier cities and towns. By November 2007 by the Diwali day it had opened 1000th store and it was in the Vth phase.

At the time of shutting down its operations the company has diversified into four business types

1. Supermarket: Includes quality grocery, packed foods, cosmetics, household provisions.
2. Fruits and Vegetables: Includes fresh fruits and vegetables sourced directly from the farms at best prices.
3. Pharmacy: have a store pharmacy which stores mostly basic medicines. All medicines are available at flat 10% discount.
4. Telecom: recently entered into mobile retailer business and offers handsets, recharge cards and accessories from all the leading cell phone manufacturers at lower prices.

Model of Subhiksha

It focuses on two C's factors

1. Criticality of Cost
2. Convenience of Buying.

To achieve this it works on the following aspects

- Edge over competition – by unique “neighbourhood” store strategy
- Lower margins –operates over a margin of 15%, others operates at 20%
- More savings to the customers
- Small store/ cost saving – no frills, no air conditioning, less interiors
- Everyday low price system(ELDP)
- Combination of Discount model and carpet Bombing model – apart from following a discount model of Wal-Mart, it follows the carpet bombing model so that it can be nearly every corner of a city.

- Centralised purchasing – gives them a greater bargaining power and helps them in getting With its bar coding techniques, Subhiksham card, efficient SCM , home delivery system, establishment of Online retail system it started to make its headway. Subhiksha’s business is structured and run like telecom companies which has the concept of ‘circles’. Certain aspects of subiksha’s business like financial aspects, IT , marketing and purchasing (bulk discount deals) are controlled centrally. However regions have flexibility in deciding where they want to set up the store, how many, at what price and what they want sell is all, marketing etc. The branding strategy for this retail store was low-cost and no-frills, i.e., a reliable and trustworthy store that has the lowest prices.

Subhiksha though started in 1997 much before any India Retail story was a small retailer till 2006 – after 9 years in business the store count in 2006 was only 150. The chain aggressively expanded till it had nearly 1,600 stores by January 2009. The company though small was a pioneering retailer in as much as it had a unique India centric model and was the only retailer in India focusing on the mass market and weaning away the consumer from the kirana habit. Subhiksha was a Value focused retailer born at a time when organised retailing was only for the elite. From 150 stores in Sept 2006 all of which were in Tamilnadu the company grew rapidly to over 1600 stores by Sept 2008 across the country. Turnover grew in line as well – from merely Rs 330 Cr for FY06 to Rs 833 Cr for FY 07 to Rs 2305 Cr for FY 08. The retail chain is eyeing a turnover of around Rs 4,500 crore in FY’09. The company had clocked a turnover of Rs 2,300 crore in 2007-08, he said. The last audited accounts presented by Subhiksha to the board was for the year ending March 2007, in which it showed a turnover of Rs840 crore, net profits of Rs18.36 crore, inventories of Rs280 crore, and a secured loan of Rs245 crore, Ramnath said. The company has received strong support from ICICI

Venture which at a peak held a 38% stake in the company and has since sold 15% of that for a handsome profit. The company's present investors include Wipro's Azim Premji "**Premji Invest**" and ICICI Prudential Mutual fund apart from the ESOP Trust. Subhiksha shelved plans for an IPO last year citing adverse market conditions

FALL OF SUBHIKSHA

In June 2008 The Newspaper headlines read:

Subhiksha was planning to invest Rs1,200 crore for expansion by 2010

It aims to become a \$5 billion company by 2011.

Food and grocery retail chain Subhiksha will invest around Rs 1,200 crore for expansion by 2010, a top company official said. "We will have around 3,000 stores by 2010 and we plan to invest around Rs1,200 crore in the period," Subhiksha's promoter R Subramanian told PTI. The funds would be raised through a mix of equity and debt," Subramanian said. At present, the chain has around 1,480 stores. "We will be present in around 250 cities by 2010," he said, adding that each store will be of an area of 15,000 sq ft to 20,000 sq ft. In a move to further accelerate its growth plans, Subhiksha is also acquiring a majority stake in a Chennai-based listed company Blue Green Constructions and Investments Limited, he said.

In June 2008, Subramanian had picked up a 40% stake in little-known Blue Green. Subramanian had then said the acquisition in the listed company would help it both enter the consumer durables area and **access capital markets without going through a fresh listing process**. "We want to enter the consumer durables space in a big way and Blue Green also had similar plans," Subramanian was quoted as saying at that time. The information sourced from Blue Green's website raises fresh questions about prior relations between Subhiksha promoter R. Subramanian and the potential reverse

merger target. "No, not at all, as that (declaring bankruptcy) is not a solution. According to documents released by managers to the merger offer Collins Stewart Inga Pvt. Ltd, Blue Green had reported a total income of Rs2.06 lakh and profit after tax of Rs19,000 "before prior period expense adjustment" for the year ended 31 March 2009. While a Chennai high court verdict on the proposed merger between ailing retailer Subhiksha Trading Services Ltd and Blue Green Constructions and Investments Ltd is expected on 9 March 2009. **RS was criticized for the merger and his decision not to raise equity by IPO.**

The first sign of trouble came towards the end of September 2008, when the company approached the private equity fund for a Rs50 crore loan. After that, the fund visited 200 outlets to size up the scale of the problems it faced. In Sept 2008 RS said "banks were not even lending to each other forget lending to us ! and in a business like ours where stock and cash are like blood we seized up pretty fast when the blood supply got choked. We were deploying cash for expansion and also for a new business which we were staring – 2 mn sqft of retailing space for consumer durables etc – this was the year where we were deploying Rs 1000 cr on expansion and we could not raise the money and based on the confidence we would raise equity and debt we were stuck midway." The R. Subramanian-promoted chain has closed down all its around 1,600 outlets across the country due to severe liquidity crunch and has earlier said it required funds to the tune of Rs300 crore to re-start operations.

Azim Premji-owned Zash Investments, which have a 10% stake in cash-strapped retail chain Subhiksha, has sent legal notices to six serving and former directors of the company charging them of failure in "performing official duty". Zash Investments had acquired 10% stake in Subhiksha from ICICI Venture in late 2008 for Rs230 crore. Private equity firm ICICI Venture Funds Management

Co. Ltd, which holds a 23% stake in Subhiksha Trading Services Ltd, is engaged in an effort to salvage the troubled discount retailer.

Until the end of September 2008, there was no communication to ICICI Venture or to the Subhiksha board on any difficulties faced by the retailer, said Renuka Ramnath, chief executive officer and managing director of ICICI Venture. She said. "We were continuously given information about the roll-out plans of the company, and how the IPO (initial public offering) plans of the company would take shape as things evolved." She along with LIC chairman S B Mathur, Carnegie Mellon University faculty member Kannan Srinivasan, independent consultant Rama Bijapurkar (all three of whom have resigned from Subhiksha's board), quit because they hadn't been informed about the full extent of liquidity and operational issues the retailer faced.

Reasons for the fall of Subhiksha

Consequently, in the following month (October, 2008) the company ran out of enough funds to run the organization. Thereafter, Subhiksha has been continuously besieged by a set of problems from all sides.

1. Subhiksha Trading Services has come under fire from television channels for not clearing advertising dues that run around Rs 8 crore.
2. Subhiksha is believed to owe Rs 35 crore against goods, Rs 18 crore against wages, and Rs 20 crore against lease rents. The company, according to the report, is also carrying a debt of Rs 700 crore at an average interest cost of 12 per cent per annum.
3. Expansion of Stores without adequate system control and IT Support. That's why there was a huge Audit and abnormal losses in the system. And when they have started implementation of SAP the time has gone for survival of Subhiksha.
4. Maharashtra FDA, the state government's regulatory authority for food and drugs, had asked Subhiksha to suspend operations of its warehouses at Bhiwandi (Mumbai) for 20 days as well as had cancelled licences of three of its vendors, charging that they had failed to maintain health and hygiene norms as prescribed by the regulator.
5. Many wholesale suppliers in Azadpur subzi mandi, or vegetables market, have stopped supplying fruits and vegetables to Subhiksha's outlets in the National Capital Region (NCR) surrounding the national capital. This comes in the wake of the company holding up payments for two to six months against normal credit period of one month.
6. Lack of strong HR policy and Staff— Due to this Subhiksha was not able to retain the talent which he initially bring into Junior, Middle and high level management. Whatever was remaining with it is all family bound with no commitment policy.
7. They were paying huge rentals for these stores, which was a huge drain on the company's finances. There are huge frauds while entering in to rental agreements by their own management people. There was no proper check and control on this cost though this is a very crucial part to defeat competitors and to gain profitability in future. This, coupled with less than-expected footfalls, drove the operational costs to unsustainable levels
8. The wrong assumption that telecom segment is a sound, and profit making segment. The CEO never looked in to system losses arise from telecom. Subhiksha stores always sell handsets at below DP while its benchmarking is to match DP. No control on inventory of mobile accessories and there stock value and were unable to circulate the working capital.

9. Meanwhile, the company has closed around 90 grocery stores across the country over the last one month or so. The company has also significantly reduced the inventory levels in its mobile retail arm - Subhiksha Mobile stores. Thus sinking into unrepaired conditions Subhiksha has to compete with its high profile competitors like RPG, Reliance retail and Future group etc. Reliance Retail has set up 700-odd stores in the past two years, almost at the rate of one store per day, Future Group has begun opening a new no-frills discount retail chain called KB's Fair Price Stores, a format that is similar in concept to Subhiksha stores. Reliance's food and grocery format Reliance Fresh on the other hand is high-end in terms of display, ambiance and size.

State of Subhiksha as of Today

Subhiksha is undergoing a corporate debt restructuring programme to make the cash-strapped retail chain eligible for receiving funding to re-start its operations. The debt restructuring of the company, key to the survival of the retail chain, has to be completed by 31 July, or six months since the beginning of the process in January 31st 2009. Subhiksha, which owes 13 banks about Rs8 billion (\$165 million), said 12 of the banks and the company's three largest stockholders are working to restructure the debt and infuse funds needed for the company to reopen its stores, Subramanian said.

According to RS the company is going for corporate debt restructuring (CDR) which will need a six month period i.e from 31st January 2009 to 31st July 2009. We have a viable business which is cash-starved and CDR will help us revive this," Subhiksha Trading Services managing director said. He said the company, which has a total debt of around Rs750 crore, may have to look to the equity route to raise money in order to find cash for preventing the company from stopping its operations. "If there is

no money, we can't run operations but if there is no debt, we have to look at options like equity," he said. "As part of CDR, the banks would need to get a current balance sheet rather than a 31 March 2008 balance sheet and they also want to ensure that events of the kind that happened in the last three-four months do not recur," he said

The company would be able to raise Rs300 crore, required for meeting operational expenses, only after completion of the CDR process, managing director R. Subramanian said. "We are coordinating this review as this helps us as well...We are wholly part and parcel of this review and the idea is to ensure that the revival plan (for the company) is well crafted with learnings from the review," he said.

India's largest chain of supermarkets Subhiksha Trading Services Ltd is indefinitely delaying a planned initial public offering (IPO) because it has enough money to fund its expansion and will look for a listing at a "later point of time" as the stock market builds on its highs.

According to EPFO officials, Subhiksha had been given a 15-day time from 19 February 2009 to pay up dues amounting to a sum of Rs1.76 crore. PF officials are understood to have planned to attach the personal bank accounts of Subhiksha MD R Subramanian and properties of the retail chain as the 15-day deadline given by the EPFO to the company for paying provident fund dues has ended.

Subramanian attributed the "collapse" to a strategy of debt-led rapid expansion on a small equity base. He said the growth to 1,600 stores and nearly a Rs4,000 crore annual revenue rate was achieved through a high level of debt. "...we had expanded rapidly... Most of the growth was debt-led... We had built on a tiny equity base of just Rs32 crore, and even including share premiums, etc., the company had raised only a total of Rs180 crore as shareholder funds..."

Lack of funds led the company's trading cycle to "collapse" as the company ran out of cash in October, bringing its operations to a "standstill", Subramanian said in the note.

Today RS is in a very difficult phase of his life to revive Subhiksha and also to protect the interests of all the stake holders of Subhiksha. Time only has the answer for this. We can only wait and watch

Questions:

1. What are the challenges and opportunities for RS when he started Subhiksha
2. Why this sudden collapse for subhiksha
3. Has the business model failed – is it right to say the format is not working
4. If you had a option to do things differently what would you change of the things what RS did in the last 12 months.
5. Do you think Subhiksha can revive – and why
6. Is liquidity and lack of enough equity and money the real issue of the fall of Subhiksha
7. Is RS a good Entrepreneur.
8. Do you think : Is the recession the pain – is economic contraction the reason for collapse of Subhiksha

REFERENCES

BOOKS:

Subhiksha: A Saga of Ups and Downs by Bindu Rathore

INTERNAL SOURCES

1. Subhiksha ties up with vJive Networks, The Economic Times, 20 Mar, 2007
http://economictimes.indiatimes.com/News/News_By_Industry/Services/Retailing/Subhiksha_ties_up_with_vJive_Networks/articleshow/1785276.cms
2. Subhiksha, India's largest retail chain Source: <http://www.rediff.com/money/2007/feb/05bspec.htm>
3. http://www.chennaibest.com/cityresources/Home_Needs/profiles02.asp
4. Subhiksha to increase retail outlets, The Hindu Source: <http://www.hindu.com/2006/07/15/stories/2006071517851900.htm>
5. Subhiksha growing at a scorching pace; to double network and revenue in six months; betting big on mobile phones, India Retail Biz, Source: <http://indiaretailbiz.wordpress.com/2006/11/15/subhiksha-doubling-revenue-and-network-in-six-months-betting-big-on-mobile-phones/>
6. Subhiksha Website, Source: www.subhiksha.in
7. Subhiksha to open 100 stores in Mumbai in one month; announces 1,000 stores within one year. India Retail Biz, December 13, 2006
Source: <http://indiaretailbiz.wordpress.com/2006/12/13/subhiksha-to-open-100-stores-in-mumbai-plans-1000-in-india-within-one-year/>
8. Success story of Subhiksha, India's largest retail chain, February 05, 2007 <http://www.rediff.com/money/2007/feb/05bspec.htm>
9. Subhiksha to enter into online Stores, The Economic Times
Source: <http://economictimes.indiatimes.com/articleshow/2456436.cms>
10. Subhiksha to create private label portfolio, The Economic Times 15 Nov, 2006,
Source: <http://economictimes.indiatimes.com/articleshow/447925.cms>
11. Making of Largest Retail chain in India : Subhiksha.- Dec 12
Source: www.startupavenues.com/news/2007/02/08/making-of-largest-retail-chain-in-india-subhiksha/
12. Subhiksha aims 1000 retails stores
Source: in.news.yahoo.com/061212/43/6a8e0.html

13. After grocery, Subhiksha eyes mobile phone market Business Daily from THE HINDU group of publications Thursday, Jul 26, 2007
<http://www.thehindubusinessline.com/2007/07/26/stories/2007072651350500.htm>
14. IMAGES India Retail Report 2007
 Source: www.imagesretail.com/india_retail_report.htm
15. Subhiksha draws up cluster-bombing plan, The Economic Times, 6 Dec, 2006, Source:
http://economictimes.indiatimes.com/News/News_By_Company/Companies_A_Z/S_Companies_/Subhiksha/Subhiksha_draws_up_clusterbombing_plan/articleshow/726435.cms
16. Subhiksha: The common man's retailer, The Economic Times. 2 Oct, 2007, 0005 hrs Source:
http://economictimes.indiatimes.com/Interview/R_Subramanian_MD_Subhiksha_Trading_Services/articleshow/2420996.cms
17. Subhiksha addressing the needs of masses, not the elite, The Economic Times, 20 Jun, 2007
 Source: <http://economictimes.indiatimes.com/articleshow/2135104.cms>
18. Subhiksha tides over stock issues, logs better sales. The Economic Times, 10 May, 2007,
 Source: http://economictimes.indiatimes.com/News/News_By_Industry/Services/Retailing/Subhiksha_tides_over_stock_issues_logs_better_sales/articleshow/2024239.cms
19. <http://www.indiaretailbiz.com/blog/category/indian-retalers/subhiksha-subramanians/>
20. <http://www.livemint.com/subhiksha.htm>
21. <http://www.financialexpress.com/news/subhiksha-charts-rs-1-000-crore-investment/373019/>

* * * * *