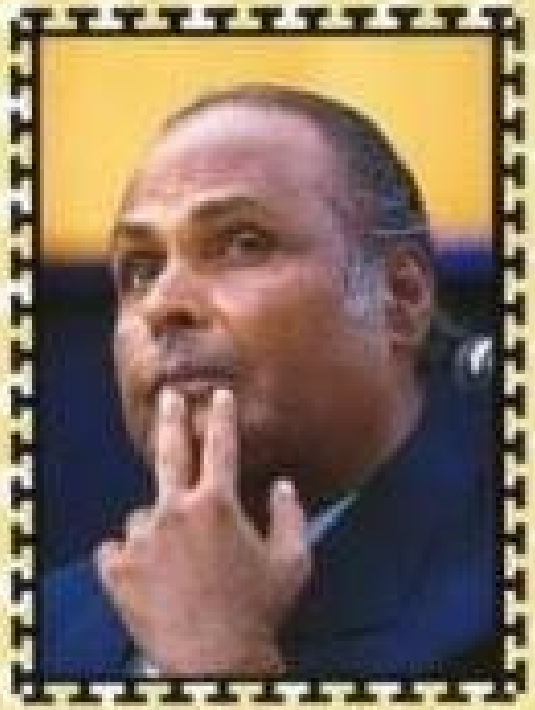
The Polyester Prince



The rise of Dhirubhai Ambani

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INTRODUCTION:
AN INVITATION
TO BOMBAY

The envelope was hand-delivered to our house in Golf Links, Tan enclave in New Delhi whose name captured the clubbable lifestyle of its leisured and propertied Indian residents, soon after we had arrived in the middle of a north Indian winter to begin a long assignment. It contained a large card, with a picture embossed in red and gold of the elephant-headed deity Ganesh, improbably carried on the back of a much smaller mouse. Dhirubhai and Kokilaben Ambani invited us to the wedding of their son Anil to Tina Munim in Bombay.

In January 1991, just prior to the explosion in car ownership that in later winters kept the midday warmth trapped in a throat-tearing haze overnight, it was bitterly cold most of the time in Delhi. Our furniture had still not arrived-a day of negotiations about the duty payable lay ahead at the Delhi customs office where the container was broken open and inspected-and we camped on office chairs and fold-up beds, wrapped in blankets.

The Indian story was also in a state of suspension, waiting for something to happen. The Gulf War, which we watched at a big hotel on this new thing called satellite television, was under- cutting many of the assumptions on which the Congress Party's family dynasty, the Nehrus and Gandhis, had built up the Indian state. The Americans were unleashing a new generation of weap- ons on a Third World regime to which New Delhi had been close; its Soviet friends were standing by, even agreeing with the Americans.

The Iraqi invasion of Kuwalt had pushed up oil prices and forced the Indian Government to evacuate some three million of its citizens working in the Gulf. The extra half-billion dollars all this cost India was pushing the country close to default on its foreign debt. Officials from the Ministry of Finance were already negotiating a bail-out from the IMF in Washington; the IMF was setting stiff 'conditionalities'-in effect a complete shift from Nehru's model of high external protection for the economy and government allocation of savings. Even the CNN clips of Tomahawk cruise missiles zipping neatly down the streets of Baghdad were in themselves part of another breach in India's walls. The clites who ran the national TV monopoly or the big newspapers no longer had India's half-illiterate population to themselves.

Little of this was admitted in New Delhi. The coalition government of V P Singh, which had swept out the glamorous Rajiv Gandhi on a battery of corruption scandals, had itself collapsed in November after less than a year in **office.** India was ruled by an even smaller coalition of opportunists under a wily politico called Chandrashekhar, kept in office at Rajiv's pleasure for who knew how long. Everyone clung to the autarkic, Third World verities. Politicians and journalists pounced on the slightest admission by their fellows that perhaps India's vision of the world had been flawed and it had better adjust to the new order.

At the Ministry of External Affairs, in the red sandstone majesty of Sir Herbert Baker's Secretariat buildings, a bright young official on a new economic desk assured me that India's finances were strong enough to take the strains. At a party of intellectuals' young academics and filmmakers in rough cotton kurta-payjama suits scoffed at the prospects for satellite TV. How would the advertising payments get out to the broadcaster through the maze of foreign exchange controls? Which foreign companies would want to plug products they could neither export to India nor make locally?

The wedding invitation was a good excuse to break away from this stalemate in New Delhi, and make contact with the Indian commercial class in Bombay. There it looked as if a raw entrepreneurial spirit was straining to break through the discouraging political crust. Word of the Ambani family and their company Reliance Industries had spread to Hong Kong as prime examples of this brash new India which might finally have its day, courtesy of the changes the Gulf War symbolised.

Everything about the Ambanis, in fact, was a good magazine story The young couple's courtship had been a stormy one, ready-made for the Bombay show-biz magazines. The bride, Tina Munim, was a girl with a past. She had been a film starlet, featuring in several of the Hindi-language films churned out by the hundreds every year in 'Bollywood'-most including improb- able violence, song-and-dance routines, and long sequences with the female leads in wet, clingy clothes. Before meeting Anil, Tina had had a heavy,

well-publicised affair with a much older actor. The groom, Anil, was the tearaway one of the two Ambani boys. His parents had frowned on the match. Bombay's magnates usually tried to arrange matches that cemented alliances with other powerful business or political families. This one was not arranged, nor did it bring any more than a certain popularity. Hired assailants had been sent with acid and knives to scar Tina's face, so went the gossip (apocryphal: Tina's face turned out to be flawless). Anil had threatened suicide if he could not marry Tina, went another rumour. Finally, the parents had agreed.

The father, Dhirubhai, was no less colourful and even more controversial. He had first worked in Aden in the 1950s. I recalled a stopover there in my childhood, aboard the S. S. *Oronsay, a* buff-hulled Orient Line ship, en route to my father's posting in London with his Australian bank in 1958. The image was of grim, dark-brown peaks surrounding a harbour of brilliant blue, a host of merchant ships tied up to moorings, and a busy traffic of launches and barges. The trip ashore was by launch, landing at Steamer Point, where Arabs and Indians besieged the white faces, trying to sell us Ottoman-style cushions or to drag us into their duty-free shops. Now someone like those desperate salesmen in Aden was a tycoon in Bombay.

Ambani had got into polyester manufacturing in a big way, and got huge numbers of Indians to invest in shares of his company, Reliance Industries. In India, the home of fine cotton textiles, it seemed that people couldn't get enough polyester. The only constraint on local producers like Reliance was the government's licensing of their capacity, or where they built their factories. To jack up his capacity, Ambani had become a big political fixer. In the recent minority government formation, it was said, his executives had been shuttling briefcases of cash to politicos all over Delhi. There had been epic battles, with the press baron Ramnath Goenka of the *Indian Express* and with a textile rival from an old Parsi business house, Nusli Wadia. A year or so earlier, a Reliance public relations manager had been arrested for plotting to murder Wadia. The man had been released, and nothing was moving in the case. Was it genuine or a frame-up? Indian colleagues were not sure: no conspiracy was accepted at face value.

So we took our first trip inside India, making our way down to New Delhi Railway Station in a yellow-and-black cab, one of the 1954 Morris Oxford design still being made in Calcutta, in the rose-coloured haze of a winter afternoon; letting a red-shirted porter heave our bags on his head and lead us to the train, establishing our rights to the coveted two-berth compartment in the middle of the First Class Air-Conditioned carriage from the list pasted by the door.

The train slid across the flat beige northern landscape of wheat-stubble and square houses as night fell. In the morning we were trundling past palm trees and mangrove-bordered creeks before humming into Bombay through suburban stations packed with commuters.

If New Delhi was a city of books, discourse, seminars and not much action or precision, Bombay was one where people made the most of the nine-to-five working day before battling their way home to the distant suburbs. Most crucially, Bombay had accepted the telephone as a medium of dialogue-not merely as a preliminary to an exchange of letters setting up a meeting. It was also unashamedly concerned with money and numbers. New contacts like Pradip Shah, founder of India's first rating agency for corporate debt, with the slightly alarming acronym of CRISL, or Sucheta Dalal, a business journalist at *The Times of India,* or Manoj Murarka, partner of the old stockbroking firm of Batlivala & Karani, rattled off the details of industrial processes, forward- trading in the sharemarket or conversion dates of debentures at bewildering speed.

The wedding was going to be big, so big that it was to take place in a football stadium, the same one where Dhirubhai Ainbani had held many of his shareholders' meetings.

But it began in an oddly casual way. As instructed, we went mid-afternoon to the Wodehouse Gymkhana Club, some distance from the stadium. There we found guests milling in the street outside, the men dressed mostly in lavishly cut dark suits and showy ties, moustaches trimmed and hair brilliantined. The women were heavily made up, laden with heavy gold jewellery, and wearing lustrous gold-embroidered silk saris. Anil Ambani appeared suddenly from the club grounds, dressed in a white satiny outfit and sequinned turban, sitting on a white horse. A brass band in white frogged tunics struck up a brash, repetitive march and we set off in separate phalanxes of men and women around the groom towards the stadium. Every now and then, the process would pause while the Indian guests broke into a pro- vocative whirling dance, some holding wads of money above their head. The stadium was

transformed by tents, banks of inarigolds and lights into a make-believe palace, and filled up with 2000 of the family's closest friends and business contacts. They networked furiously while a barechested Hindu pundit put Anil and Tina through hours of Yedic marriage rites next to a smouldering sandalwood fire on a small stage. Later, the guests descended on an elaborate buffet on tables taking up an entire sideline of the football pitch, starting with all kinds of samosas and other snacks, working through a selection of curries and breads, and finishing with fruits and sweets wrapped in gold leaf. The next day, the Ambanis put on the same spread-if not the wedding ceremony at another reception for 22000 of their not-so-close. friends, employees and second-echelon contacts.

Retrospectively, by the standards of Bombay a few years later, it looks a modest and traditional affair. Before their joint marriage of three children in 1996, the ingratiating Hinduja family had an elaborately illustrated book prepared on the Hindu marriage and sent to all invitees. Other business alliances were celebrated with elaborate stage-sets based on the ancient epics; lines of elephants led the processions of the grooms and diamonds were pasted to the foreheads of women guests. But at the time, the sheer size of the wedding was seen as a sign that Dhirubhai Ambani had made it through the political travails of 1989~90 and was unabashed-and certainly not strapped for cash or friends.

It was flattering to be there and to have a Reliance public relations manager take me up to meet the Ambanis-flattering, within a month of arriving in India, to meet the country's fastest moving, most controversial tycoon. An interview was promised shortly, once the festivities were over. An early cover story was clearly a possibility, an antidote to the gloomy political news out of Delhi. It would help my standing at the *Far Eastern Economic Review* if India was an upbeat business story and I was right on to it.

That of course was the desired effect. Reliance was desperate to raise funds for expansion and was looking to foreign sources, so some image-building in a prestigious magazine was highly useful. A newcomer to India would be more inclined to play down the controversies and look at the company's prospects.

The interview, when it took place a month or so later, was stimulating. Dhirubhai Ambani came limping around a huge desk when I was ushered to a sofa and greeted me warmly. Despite the obvious effects of a stroke in a twisted right hand, his mahogany skin was smooth and healthy, his hair plentiful and slicked back decisively in a duck's tail. His attention was unwa- vering. Disarmingly, Dhirubhai admitted to many of the youthful episodes that were the subject of rumour, and responded evenly when I raised some of the criticisms commonly levelled against him. He didn't mind people calling him an ‘upstart' or even worse names. It just meant they were trapped in their complacency while he was racing ahead. But the disputes were now 'all history' and the former critics were now all his 'good friends' buying their polyester and raw materials from him.

'The orbit goes on changing,' he declared airily. 'Nobody is a permanent friend, nobody is a permanent enemy. Everybody has his own self-interest. Once you recognise that, everybody would be better off.'

However, Ambani did point to an unfortunate trait in his countrymen. 'You must know that, in this country, people are very jealous.' It was not like in Hong Kong or other East Asian countries, where people applauded each other's success, he claimed. In India success was seen as the prerogative of certain families. But he didn't really mind. 'Jealousy is a mark of respect,' he said.

The interview resulted in a cover story for the *Far Eastern Economic Review* which portrayed Ambani as the business underdog trying to break through the government's red tape and the prejudices of a tired Bombay business establishment. Naturally enough, Ambani and his PR men were pleased. His one quibble, I was told, had been my pointing out some glossed-over problem areas in the Reliance annual reports, which had been put in the notes to the accounts, fine-print areas that only the professional analysts really read. The comments were true enough, but they made it look as though Reliance was unusual among Indian companies in these practices.

The Reliance public relations office continued to be attentive, supplying advance notice of newsworthy events. At one point later in 1991, there was another glimpse of Dhirubhai Ambani's energetic mind. His Delhi office passed on a request for information about Indonesia's engagement in the late 1980s of the Swiss cargo clearance firm Societe Generale de Surveillance (SGS) to administer its imports and exports,

thereby sidelining the country's notoriously corrupt customs service for several years. I sent off some clippings, intrigued that the man accused of smuggling whole factories through the ports of India now seemed to be advocating Swiss efficiency in place of the lax adininistration of which he had supposedly taken advantage. The proposal got to a high level in the government before being canned, but not before causing panic in the Indian customs service-which may have been all Dhirubhai wanted to do anyway.

There were daily updates from the Reliance PR staff on an issue of convertible securities issued in the Eurornarket in May 1992, the first by an Indian company and tangible proof of India's reforms reconnecting it to the world economy. There was a company-organised trip out of Bombay up to its new petro- chemicals plant at Hazira, involving a bumpy flight in a chartered turboprop to the airfield at Surat, bare of airport terminals or navigational aids as far as could be seen, and a drive through the old textile trading city, squalid despite its lucrative silk and diamond industries-and, a couple of years later, notorious for an outbreak of bubonic plague. Across the Tapti River, a glittering array of pipes and towers had indeed come up, and cryogenic tankers full of sub-zero ethylene were tied up at the jetty. Reliance was clearly not just a paper empire.

But the history of political and corporate activity had put a sinister shadow across the glearning success. M through the government changes of 1990 and 1991, the press carried references to a certain 'large industrial house' supporting this or that party or being behind certain politicians. Scores of party leaders, ex-ministers, senior bureaucrats, and heads of the big government- owned banks and corporations were said to be Ambani friends' or Ambani critics'. Mostly it was the friends, it seemed, who got the jobs.

People made bitter and cynical remarks about the Ambanis in private. The press coverage, especially in the Indian business magazines, had a repetitive quality. A myth was being created and sustained. At a meeting of shareholders in a big Bornbay engineering firm named Larsen & Toubro late in 1991, convened to approve a takeover by the Ambanis, this undercurrent of hostility welled up into a physical melee. In the shouting and jostling, the two Ambani sons had to flee the stage. The controversies kept continuing right through the 1990s.

Dhirubhai Ambani attracted adulation or distrust. To his millions of investors, who had seen their share prices multiply, he was a business messiah. To one writer, he was a 'Frankenstein's Monster' created by India's experiments with close government control of the economy.

'There are three Dhirubhai Ambanis,' one of his fellow Gujaratis, a writer, told me. 'One is unique, larger than life, a brand name. He is one of the most talked about industrialists., and for Gujarati people he has tremendous emotional and sentimental appeal. He is their ultimate man, and has inspired many emulators. The second Dhirubhai Ambani, is a schemer, a first-class liar, who regrets nothing and has no values in life. Then there is the third Dhirubhai Ambani, who has a more sophisticated political brain, a dreamer and a visionary, almost Napoleonic. People are always getting the three personalities mistaken.'

In a legal chamber lined with vellum-bound case references, a senior lawyer took an equally stark view. 'Today the fact is that Ambani is bigger than government,' said the lawyer in all seri- ousness. 'He can make or break prime ministers. In the United States you can build up a supereorporation but the political system is still bigger than you. In India the system is weak. If the stock exchange dares to expose Ambani, he tells it: I will pull my company shares out and make you collapse. I am bigger than your exchange. If the newspapers criticise, he can point out they are dependent on his advertising and he has his journalists in every one of their departments. If the political parties take a stand against him, he has his men in every party who can pull down or embarrass the leaders. He is a threat to the system. Today he is undefeatable.'

Surprisingly, the role played by Dhirubhai Ambani received only cautious side-references in most books about contemporary Indian politics. No biography of him was in the bookshops, although Indian journalists and conunentators had produced 1quickie' biographies of other new celebrities in vast numbers. The work of the economic historians largely cut out in the 1960s. The few biographies of other Indian businessmen were commissioned works, not very well written, and notable for a worshipful attitude to the subjects. No one drank, cursed, cheated or philandered. Their workers were all part of the family. Almost everyone lived an abstemious vegetarian life, accumulating wealth only to give it away to temples, hospitals and schools.

By 1992, Reliance was tapping investors in Europe for fund- ing, and international investment funds were being allowed to play the Indian sharemarket directly. A few years later, the company had started borrowing in New York on a large scale. The Ambani story was becoming of greater interest outside India, at least to investors and perhaps to a wider audience watching the explosive growth of capitalism across Asia.

The idea of this book occurred in 1992, and I put it to Dhirubhai Ambani later that year at a second meeting in his Bombay office. Ambani seemed receptive, and agreed that his life story could be 'inspiring' for a younger generation of Indians as well as interesting to those thinking of dealing with India. I left the meeting with an understanding that he had agreed to talk about his life at meetings to be arranged and that, if so, I would show him the completed draft as a courtesy and listen to any objections-but retain the final say on the content. The book would not be credible' otherwise, Ambani concurred.

A year slipped away without further progress, and then relations with Reliance took a downturn. By the end of 1993, Reliance was in the bidding for several oilfields in the Arabian Sea. The government oil search corporation had discovered the fields but did not have the funds to build the huge production rigs, gas compressors and pipelines that were needed. Several contacts among rival bidders were alleging that the tender was being rigged in favour of Reliance. Indian politicians and bureau- crats are masters at tilting an 'open and transparent' tender into a one-horse race, by techniques such as keeping the weighting of bidding factors uncertain or secretly promising later concessions to compensate for underbidding. In the event, Reliance swept the field, and a director with one of the losers told me: 'We were shafted, and for the wrong reasons.'

Writing about this would not advance my request for access to the Ambanis for the book, but my duty was to the magazine that employed me. The first of two articles in the *Far Eastern Economic Review* about the oilfields battle drew a bitter complaint from Anil Ambani that the report was 'defamatory'-a complaint not sent directly to me, or to the magazine, but in a letter sent to the head of one of the rival companies, the Australian resources giant BHP, and copied to the heads of theamerican and Australian diplomatic missions in New Delhi.

Thereafter, I wrote occasionally about Reliance and, in July 1995, left my job with the magazine to spend more time on the book. A letter to Dhirubhai Ambani informing him of this move went unanswered. Over the following 18 months, the research led me into all corners of Bombay life, from the slum homes of the senii-criminal underworld to the offices of powerful business tycoons, to several cities and towns in Gujarat on crowded country buses and trains, to converted churches in London and Leicester ringing with the Hindu chants of the Gujarati diaspora.

The reception varied. Almost everyone wanted to know if the book was authorised or sponsored. It was neither, I said, but Ambani had been told and so far had not expressed to me a view either way about it. Many of those people who knew Dhirubhai Ambani in his early days in Junagadh and Aden and then starting his business in Bombay were willing to talk. Some others-such as his former Aden colleague and Middle East co-ordinator in Dubai, Bharat kumar Shah, asked for a letter of clearance from Ambani himself, which again was not forthcoming. One Bombay journalist who agreed to share his knowledge picked up the telephone immediately I arrived at his flat and rang Anil, Ainbani's office. 'I have told him if you are wanting scandal you will lose the whole story,' he said down the phone to the executive who answered. The next day, I was invited to lunch by a pair of Reliance public relations executives and quizzed closely about my intentions.

Dhirubhai Ambani did respond to a birthday greeting sent at the end of December 1995, but there was still no word about his attitude to the book. A month later, however, I flew especially to Bombay for an interview arranged with his former export manager, Rathibhai Muchhala, who according to numerous other sources 'knew everything' about the early days. At the appointed time, Muchhala was not at his office in the industrial belt behind Bombay's airport. A secretary telephoned him: he was at the Reliance head office. Muchhala was sorry, but Ambani's office had advised him not to meet me.

Ambani's personal assistant, Dinesh Sheth, then confirmed this: there were several proposals for biographies and some months earlier Dhirubhai Ambani had indicated to his staff that he did not want at

that stage to encourage or co-operate with any of them. Sheth professed ignorance of my previous letters, so I sent another the next day, offering to come at any time to discuss the book.

Ironically, the reception among those figures who had been critics or opponents of Reliance was also wary. Phiroz Vakil, a senior advocate in tiny chambers in Bombay's old Fort, surveyed me intently while stuffing Erinmore Flake tobacco into his pipe and warned that people would suspect I was being used by the Ambanis to draw out information. Among some others, my earlier favourable write-ups of the Ambanis still told against me. 'I suppose you think he's a hero,' said the retired Finance Ministry official and Cabinet Secretary Vinod Pande, down the phone.

Others just seemed too battle-weary When I rang the Orkay Silk Mills chairman Kapal Mehra and asked to meet him, there was a long pause. 'I'm afraid that won't be possible,' Mehra said. The former prime minister Viswanath Pratap Singh did not reply to a letter and giggled nervously when I cornered him at a cocktail party in New Delhi. No, he could not possibly talk about any one company, Singh said, easing away quickly.

Those who did agree to talk for the most part insisted on anonymity: they had to live in India, they explained. Word of some of these meetings must have been passed back to Reliance, for in January 1997 a stiff letter arrived from Kanga & Co in Bombay, lawyers for Dhirubhai Ambani and the company, warn ing that their clients 'understand and apprehend that the pro- posed publication contains material which is defamatory to our client'. It was claimed that 'at no time' had there been any attempt to verify the material with the clients. Action for exem- plary damages and injunction against publication were threatened if the book was defamatory At this point it had not even been completed, let alone delivered to the publishers.

Fortunately, the several controversies that hit Reliance in the second half of 1995 produced a deluge of paper from Indian Government agencies. The various reports opened up many previously obscure and controversial aspects of the company's operations. At the same time, the controversies compelled Reli- ance to give its own explanations, which became part of the public record.

Even so the overall result, unavoidably, has been a book that becomes progressively less intimate to its subject as the story advances, drawing more on published reports, available documentation, and anonymous interviews with those who had engaged with Dhirubhai Ambani and Reliance Industries from the outside. The book is less satisfactory and less sympathetic, perhaps, than it might have been with co- operation from the Ambanis and access to them. As my research and writing progressed, however, word came from several sources that the family was compiling its own record of Dhirubhai Ambani's life and his company's growth, so a version of events from the inside may also be put to the public soon.

A PERSUASIVE YOUNG BANIA

Among all the 550-odd princely rulers left, with British Residents at their shoulders, to run their domains in the last years of the Raj, few were more eccentric than Mahabatkhan, the Nawab of Junagadh.

The Nawab's family had run this fiefdom, one of several in a political jigsaw covering the Saurashtra peninsula in Gujarat, since a faujdar or military commander of the Mughal Empire named Sher Khan Babi founded his own subordinate dynasty in 1690. Two and a half centuries later, this warrior's descendant was best known for his love of dogs. Mahabatkhan had 150 of them, with an equal number of dog-handlers on his payroll and individual quarters for all the canine retinue. To celebrate the 1wedding' of one canine pair, the Nawab was reputed to have spent two million rupees (then worth about £150 000 sterling) and to have given his 700 000 subjects a public holiday.

The Nawab was the first political target to come into the sights of Dhirubhai Ambani, although it is unlikely that he was ever specifically aware of it. It was during a movement aimed at overthrowing the Nawab's rule and securing Junagadh's accession to India during the Partition of British India in 1947 that Ambani, then a teenage high school student, had his first experience of political organisation and his first brushes with authority.

It was the only moment in modern times that junagadh has figured in the calculations of nations and statesmen. Even in the 1990s, Junagadh and its surrounds, known as the Kathiawar region, remains one of the quietest, most traditional regions of India, and one of the least accessible in the otherwise busy northwest coastal area of the country.

A few times a week, a turboprop flies into the simple airstrip at Keshod, unloading people from Bombay or the Gujarati diaspora overseas coming to visit their relatives and make offerings to family gods at local temples. In the town itself, clusters of 1940s Ford Mercury taxis wait for groups of passengers or for hire at weddings. The railway network was built to connect each of the several former principalities of Kathiawar to the outside world rather than with each other. Once you are in Kathiawar, all now part of Gujarat state, travelling between towns often means one or more changes of line and extensive doglegs and backtracking in the journey. The last steam engine on regular service in India, apart from scenic mountain railways, puffed between Junagadh and the Gir sanctuary for the last Asiatic lions until 1996.

The land itself is dry, open and stony. The monsoon rains quickly run off down the short rivers and nuilahs that radiate from the central rocky hinterland out to the sea. The roads are lined with stunted pipul (fig) trees, and the stony fields are fenced with straggling rows of cactus. The standard building material is a porous dun-coloured stone cut by saws into ready-made blocks from pits near the seashore. There are few of the modern ferro-cement extravagances built by the newly rich, hardly any of the industrial plants and their residential 'colonies' seen extending out into farrnland in other Indian regions, and only a few private cars.

But if the landscape is monotonous, Kathiawar's people com- pensate for it with riotous colour where they can. The women drape themselves with cotton scarves tie-dyed in red and orange. The local scooter-taxi is the Enfield motorcycle grafted to a flat tray resting on two wheels at the back, with the handlebars decked with coloured lights, electric horns and whirling windmills. The homes of wealthy merchants are decorated with mouldings of swans, peacocks, flamingos, parrots, elephants, lions and tigers. Massive double doors, twelve-panelled, with heavy iron studs, open tantalisingly on to huge inner courtyards.

A blood-drenched history and complicated mythology are attached to the landmarks and constructions of Kathiawar. On the coast to its west, at Dwarka, is the place where Lord Krishna died. To the south, the temple of the moon at Somnath is a centre for Hindu pilgrims from all over India. In the steep Girnar hills above the city of junagadh, long staircases take pilgrims to Jain temples dating back to the 3rd century BC.

Looming over Junagadh city, the fortified rock-citadel of Uparkot has inscriptions and cave-sculptures from the time of the 3rd century BC ruler Ashoka. The city was an important centre for Hindu rulers of Gujarat in the first millennium. Then, starting with the Afghan warlord Mahmud of Ghazni, who invaded in 1024 AD and pillaged Somnath, Junagadh suffered four centuries of sackings. Mughal rule

gave it some stability with Muslim rulers controlling its largely Hindu population. Both its rulers and its people were passive onlookers in the contest for India's trade among the English, Dutch and Portuguese, whose galleons fought vicious battles off the Gujarat coast. A five-metre long cannon broods over the town from the ramparts, a relic of an unsuccessful attack on the Portuguese trading post at Dlu, on the coast southeast of Junagadh, by the fleet of Sultan Sulaiman the Magnificent of Turkey in the 15th century

At night, seen from the coastline at the south of Junagadh, processions of navigation lights travel left and right along the horizon. The seaborne traffic between the west coast of India and the Arabian ports goes on as it has for millennia, ever more intense.

Gujarat was the trading hub of ancient India, where Indian cottons and silks were traded to Arabs and later the first English East India Company in return for silver, gold, incense and coffee from the Red Sea port of Mocca. Up until the early 15th century, Chinese junks had also come to western India. Later India and India-based European traders became the trade intermediaries between the Arab and Chinese spheres. The Gujaratis were prominent in this pre-colonial Indian Ocean trading network, with the wealth of India in its cloths, indigo, opium and spices merchandise.

The small ports of Kathiawar took part in this trade. Dlu handled much of Gujarat's trade with Aden in the west and Malacca in the cast. Gold, silver, quicksilver, vermilion, copper and woollen cloth would be exchanged for Indian gold and silver embroideries and brocades and for cotton muslins of a fineness expressed by trade terms such as abrawan (running water), baft hava (woven air) or shab-nam (evening dew).

Later of course the East India Company grabbed its monopolies in opium, tea, indigo and spices in a three-way trade equation between China, India and Europe, topped up later by the British Empire with gold bullion from Britain's new colonies in South Africa and Australia at the southern corners of the Indian Ocean. Indian entrepreneurs-in Calcutta the Marwari traders and moneylenders originally from Raiasthan, in Bombay the Parsis (Zoroastrians originally from Persia)-began moving into large-scale industrial production late in the 19th century

Smaller traders also took advantage of Pax Britannica by taking steamer passages to all corners of the Indian Ocean and Southeast Asia-no passports were needed-and opening small stores and service stations. Most were from Gujarat; a large proportion of these from Kathiawar. Two of the biggest commercial families in Uganda, the Mehtas and the Madwhals, came from Porbander, and the thriving Chandarlas of Kenya came from Jamnagar. Until 1938, the free port of Aden was part of the Bombay administration. The East African shilling, the currency of the Red Sea and Indian Ocean trade, was virtually pegged to the Indian rupee in value.

The Guiaratis were stingy with their customers and stingy with themselves. Bhaskar Bhattarcharya, a television broadcaster in New Delhi, spent his childhood years in Uganda where his father was a British colonial official. The epicurean ways of the Bhattarcharyas from Bengal contrasted sharply with those of the Patels or Shahs from Gujarat. 'When we first arrived, the women took my mother aside and said: this is the way you do things,' he remembers. 'If you were invited for dinner, you got a couple of vegetable dishes and rice. My parents liked to splash out, and serve meat and fish to their guests. Of course, by the time we left, the Guiarati peon in my father's office had probably saved more than he had.'

The wealth was the result of rigorous saving, abstemious living, and endless hours of work by unpaid family members-a migrant's success story in many parts of the world. In East Africa, it created a resentment that led to the expulsion of the Indian traders and appropriation of their assets after the colonies became independent in the 1960s. The effect was to fling the Gujarati diaspora worldwide, to start the process of capital accumulation again.

Among the Gujaratis, the people of Kathiawar are renowned for their exuberance of speech, inventiveness and commercial drive. 'This is a place of have-nots,' notes Shecia Bhatt, a former editor of the magazine India Today's Gujarati-language edition. 'It is a barren land, but out of stone they somehow draw out water. The people are so colourful because the landscape is so colourless. They fill their heads with colour. Amongst Gujaratis, the best language is among Kathiawaris: so many words. Even the trading class will have extraordinary expressions. Kathiawari traders have more vibrant terminology than other traders. They were the first to go out of India for better prospects. Adventure is second nature to

them. They have less hypocrisy. All of the other business communities affect modesty to the point of hypocrisy. Dhirubhai Ambani is part of that culture.'

In one sense, Ambani was born to be a trader, as his family belongs to a Bania caste, a section of the Vaisya category (varna) in the traditional Hindu social order whose roles are those of merchants and bankers. This instantly provided a whole network of relationships, a community and social expectations that made commerce-taking a profit from buying and selling in markets, the accumulation of capital-an entirely natural and honourable lifetime's occupation.

Although socially below the Brahmins (priests and scholars) or the Kshatriya (warriors and landowners) and rarely part of aristocratic clites, the Vaisya castes came to exercise enormous power across India. They marshalled huge amounts of capital, which funded the campaigns of maharajas and nawabs and at times the British trade and military expansion when the budget from London ran short of operational needs. Centuries before the modern banking system, Vaisya shroffs or bankers were the conduits of a highly rnonetised Indian economy, rernitting vast sums around India at short notice through a sophisticated trust system based on hundi (promissory notes).

The commercial instincts of Gujarat's Vaisya were encouraged by a convenient interpretation of Hinduism preached by the holy man Vallabhacharya in his wanderings around the region early in the 16th century Another widely followed religious school known as Shaivism (from the god of creativity and destruction, Shiva) had preached that the world was unreal and an impersonal abstract essence was the absolute reality and truth. The Jain and Buddhist religions, which had sprung from Hinduism, also preached privation, renunciation and destruction of the self. Vallabhacharya saw a personal god who created and sustained life, for whom living life to the full was a form of devotion. His school became known as Vaishnavism, as the focus of devotion was the god Vishnu's playful avatar (incarnation) Krishna, per- haps the most widely adored and human face of the divine among Hindus.

In his classic text on the Vaishnavas of Gujarat, the scholar N. A. Thoothi pointed out that this naturally appealed to the people of a land richly endowed with opportunity like the central parts of Gujarat. It was a philosophy that justified their way of life and gave a divine purpose to their roles as providers and family members. It also fitted the rising social status of the Banias in Gujarat, overriding the formal varna hierarchy.

As Vaishnavism grows, the Vamas decline. We have noticed, for example, how the Vanias [Banias] have reached a social status as high as that of the Brahmins themselves. This upsetting of the balance of the Varnas has been greatly due to economic causes. The merchant and the financier and the capitalist have, by sheer force of wealth and power, for a while become dictators over all, even over the priestly class.

A justification of their way of living, a theory of life and a pathway suited and helpful to the living of a life engrossed in work and duty as a man, husband, father, citizen and so on, a hope that such a mode of life as they live is acceptable to the highest deity-the Gujaratis naturally sought for all these.

Ambani's particular caste is called the Modh Bania, from their original home in the town of Modasa north of Ahmedabad before a migration many centuries ago to Saurashstra. The Modh are one of three Bania castes in this part of Gujarat, who might eat meals together but who would each marry within their own caste. They are strict vegetarians, and only the men take alcohol. Their practice of Hinduism follows the Vaishnavite path. But the main object of their pilgrimages, on marriage or the start of a new business venture, is a black-faced idol with a diamond in his chin located in a temple at Nathdwara, a small town in the barren hills behind the lake city of Udaipur in Rajastban. This idol represents Srinath, an avatar or incarnation of Lord Krishna, and was brought to Nathdwara from Mathura (Krishna's birthplace) by a holy man to escape the depredations of the fierce anti-Hindu Mughal emperor Aurangzeb. For reasons that are not clear, Srinath has become the familiar god of the Modh and other Banias. Portraits based on the Nathdwara idol are often seen in the offices of Bania businessmen.

In later years, Ambani and his family made frequent visits to the temple of Srinath, flying into Udaipur airport in his company's executive jet and driving straight up to Nathdwara. In 1994, Ambani built a large ashrarn (pilgrim's rest-house) in Nathdwara for the use of visitors. The three-storey building, faced in a pink granite, is dedicated to the memory of his parents.

If the Modh Bania practise piety in the temple, and abstemi- ous ways in their homes, they are known as fiercely competitive and canny traders in the marketplace, with no cornpunctions about taking advantage of opportunities for profit. A saying in Gujarat goes: 'Kapale hojo kadh, pan angane na hojo Modh'-rneaning: 'It is better to have a leucoderrna [a disfiguring skin pigment disorder] on your forehead than a Modh as guest in your house.'

Like other Bania castes of the region, the Modh Bania looked far beyond their immediate patch. For centuries it has been a custom for young men to make trading voyages to Arabian ports, building up personal capital over nine or ten years hard work and modest living before returning to marry and take over the family business. Sons inherited family property in equal proportions, with the oldest son assuming the authority of family head.

But all this was a nebulous heritage for Dhirajlal Hirachand Ambani, born on 28 December 1932. His home-town was Chorwad, literally meaning 'Settlement of Thieves' though no one seems to remark on that. It is set a mile or so back from the flat Arabian Sea coastline where the Nawab had a two-storey summer palace built of the dun-coloured stone quarried from pits nearby. The railway from junagadh bypassed the town to the cast, looping towards the old port of Veraval and Somnath.

His father, Hirachand Ambani, seems to have been a diffident trader when he tried his hand at petty conunerce, as a wholesaler in ghee (clarified butter, a cooking medium in India). He is recalled by many acquaintances as a 'man of principle'-meaning perhaps that he was too good-willed to be good at making money. He is better remembered as a village schoolmaster in the administration of the Nawab of Junagadh. From 1934-36, Arnbani senior was headmaster of the Chorwad primary school, whose classrooms with their battered furniture remain little changed around a tree-lined yard across the road from the town's bus stand.

The industrialist and parliamentarian Viren Shah, whose family also comes from Chorwad, remembers Ambani senior as a stocky man with a dark-brown skin, normally dressed in a white turban, long coat and dhoti (a piece of cloth draped into a rough pantaloon). The village schoolmaster was private tutor for several years for another member of the same family, Jayan Shah, who remembers him as a good teacher and 'very strict'.

Hirachand Ambani made little money, and lived in extremely austere circumstances. The family home still stands in a hamlet called Kukaswada, two or three miles outside the main part of Chorwad. It is a two-roomed stone dwelling with a stamped carthern floor, entered by a low doorway and dimly lit by openings under the caves. Ambani was married twice, having a son from his first marriage (named Samadasbhai) before being widowed. His second marriage gave him five more children, with Dhirajlal-or Dhirubhai as his diminutive became-in the middle.

The family's poverty did not keep the Ambanis from contact with better-off members of their social peer group. The Bania occasionally got together for meals or picnics. The Ambani children mixed freely with the Shahs, who were already prospering from a move to the then hub of British commerce in Calcutta, where they set up India's first factory making aluminium cooking pots.

The two houses of the Shah family in Chorwad, Shanti Sadan and Anand Bhavan, were big and rambling in the traditional style. As well as learning all the ways of business, the children were expected to learn various sports including horse riding, swimming and athletics, and to take their turn milking the 20 cows and 10 buffaloes kept in the gardens. The Shah family had become early followers of Mahatma Gandhi-also a Bania from Kathiawar-and often gave him accommodation in Calcutta. An uncle of Viren Shah and Jayan Shah had even retired from business and become a Gandhian social activist in Chorwad, carrying out upliftment work among its Harijans (the former Untouchables) and running a fitness camp for youth.

Jayan Shah remembers Dhirubhai, who was about seven years younger than him, coming to Anand Bhavan. Jayan Shah's father took an interest in'other people's children, lending them books to read and asking them to do odd jobs around the house. Dhirubhai was welcomed with great affection, and returned it with respect. Later, when he had gone away to work overseas, Shah remembers him dropping

by to pay his respects during a vacation back in Chorwad, arriving with 'great gusto and a feeling of an old relationship'.

The guild-like support of his merchant caste helped Dhirubhai continue his education after finishing at his father's old primary school. In 1945, he moved up to Junagadh and enrolled at the Bahadur Kanji High School. This shared with a university college a large yellow stucco edifice on the outskirts of the city that had been built in 1902 by the nawab of the time and named after him. Because of his family's poverty, Dhirubhai was admitted as a free student. He found accommodation in a boarding house funded by the Modh Bania for children of their caste.

The Second World War had largely passed by Kathiawar, save for overflights by military transports and the occasional visit of the new army jeeps. The movement for Indian independence had not. On returning from South Africa, Gandhi had established his ashram in Ahmedabad, the main city of Gujarat, and carried out many of his agitations against British rule in the same region, including the famous 'salt march' to the sea to protest against the government monopoly of salt in 1930.

His activities were financed by Indian industrialists from the Hindu trading castes, foremost among them the Calcutta-based Marwari jute-miller G. D. Birla. His abstemious lifestyle was an extension of their own ideals, more familiar to them than the Anglicised manners of the Nehru family. But a real self-interest was also involved. The industrialists also saw in the Bania-born Gandhi a counterforce within the Indian National Congress-the main secular vehicle of the independence movement-to the socialist and communist ideas that had taken a strong grip on the thinking of educated Indians. Gandhi's ideas of industrial devolution to the villages were intrinsically opposed to the pro- posals for state capitalism and central planning of investment then being promoted by the Left in India as elsewhere in the world.

In Junagadh, the ideas of Gandhi and Sardar Patel, the Hindu nationalist lieutenant of Nehru who was also a Gujarati, cast a strong influence. The Nawab, with his Indian Political Service Resident Mr Monteith at his side, was automatically put in defence of the status quo. His police force and its detective branch kept a close watch on the independence movement, and carried out many arrests of agitators throughout the 1940s.

At the Bahadur Kanji school, Dhirubhai was quickly infected by the independence mood. Krishnakant Vakharia, later a leading lawyer in Ahmedabad, was two years ahead of Dhirubhai at the school and met him soon after his arrival in Junagadh. The two took part in a gathering of students to discuss the freedom movement. Vakharia recalls that all were inspired by the nationalist ideals of Gandhi, Nehru, Patel and most of all the socialist Jayaprakash Narayan, then still in the Congress Party.

The Modh boarding house where Dhirubhai was staying became the headquarters of a new group to push these ideals, which they called the Junagadh Vidyarti Sangh (Junagadh Students' League). The objective was to take part in the national independence movement and Gandhi's swadeshi (self-reliant) economic programme, which involved boycotting imported factory made goods in favour of village craftwares such as homespun cotton (khadi). Activities were to include meetings to salute the proposed national flag of India-the saffron, white and green tricolour with the ox-wagon wheel in the middle, which was then the Congress flag-as well as motivation sessions and sports meetings for the other students.

Vakharia became the president of the Sangh, with Dhirubhai and another student called Praful Nanavati serving as secretaries. 'We organised a lot of functions, like saluting the national flag, and took a lot of risks,' said Vakharia. At one time we printed pamphlets with a photo of Gandhi, and with that we approached some leading citizens to be our sponsors-but no one agreed. In Junagadh at that time no one was allowed to even utter "Jai Hind" or "Vande Mataram", or sing national songs. Even wearing khadi made you a suspect in the eyes of the Nawab's CID.'

In 1946, the students learned that Kaniala Munsi, a lawyer who was later a leading Congress Party politican and a minister in Nehru's first government, would be visiting Junagadh. They decided to invite him to address their members in the compound of a boarding house for lain students. The Nawab's police summoned Vakharia, Dhirubhai and Nanavati, and threatened the three with arrest, expulsion from school and trouble from their parents unless they gave an undertaking that no political speech would be given.

It is here that Dhirubhai shows a spark of his later genius at bringing apparently irreconcilable demands into an accommodation, if through a dubious intellectualism. "We had said that a literary figure would deliver a speech,' said Vakharia. 'Dhirubhai whispered that there was nothing wrong in giving this undertaking. "We are not going to give the speech. If there is any breach in the undertaking, it's a problem between Munsi and the police."' Munsi came and delivered a rousing speech in favour of early independence.

As 1947 wore on and partition of British India along Hindu Muslim communal lines became more likely, the political position of the princely states came under great scrutiny. By August, when the transfer of British power was due, all the rulers came under pressure to accede to either India or Pakistan. In most of the more than 550 states, the decision was clearcut because of geographical position, the religion of the ruling family, and the predominant religion of the population.

Three difficult cases stood out after 'freedom at midnight' on 15 August. In Kashmir, contiguous with both India and Pakistan and with a Muslim majority, the Hindu ruler wavered. In the immensely wealthy and large central Indian state of Hyderabad, which had a Hindu majority, the Muslim Nizam had dreams of independence from both India and Pakistan. Then there was Junagadh, what the historian H. V Hodson called 'the joker in the pack'.

Junagadh was close to the western side of Pakistan, and had a Muslim ruler. But its fragmented territory was interlocked with that of neighbouring Hindu-ruled states, and its people were mostly Hindu. Moreover, it contained the great Hindu pilgrimage sites of Somnath and Dwarka.

In 1946, the Nawab's prime minister and closest adviser, the Diwan, had become sick and gone into prolonged convalescence. Stepping into his shoes in May 1947 as acting Diwan came Sir Shah Nawaz Bhutto, a politician from Sindh active in the Muslim League of Mohammad Ali Jinnah, the father of Pakistan. (Bhutto himself was the father and grandfather of two later prime ministers of Pakistan, Zulfikir Ali Bhutto and Benazir Bhutto.)

Bhutto kept in close touch with Jinnah and had the Nawab obey his advice to 'keep out under all circumstances until 15th August'. Then, on the day of the transfer of British power, the Government of Junagadh announced its accession to Pakistan. Hodson believes Jinnah never actually thought Junagadh would be allowed to join Pakistan. The objective of the exercise was to set uncomfortable precedents for Nehru in the more pressing contest for Kashmir and perhaps Hyderabad. If Nehru agreed to a plebiscite in Junagadh, which he eventually did, it would help Pakistan's case for a popular vote in Muslim-majority Kashmir. If the Junagadh ruler's decision was accepted, over the wishes of his people, the same could apply in Hyderabad. If the Indians simply marched into Junagadh, protests against a similar Pakistan!, use of force in Kashmir would be greatly weakened.

Nehru adopted the course of negotiation while throwing a military noose around Junagadh in the neighbouring Hindu-ruled states, which had all acceded to India. Two subordinate territories of Junagadh, the enclaves of Babariawad and Mangrol, were taken by Indian troops on 1 November 1947 without bloodshed.

Meanwhile, Indian nationalists began agitating within and without Junagadh for the overthrow of the Nawab. In Bombay on 25 September, they declared an Arazi Hakumat' or Parallel Government under the presidency of Samaldas Gandhi, a relative of Gandhi who was editor of the newspaper Vande Mataram. From a temporary base in Rajkot, Gandhi kept in touch with supporters inside Junagadh by human couriers simply walking across the open frontiers of the isolated state. Other nationalist journalists, including the editors of the Gujarati newspaper lanmabhoomi in Bombay, called for volunteers to gather in Bhavnagar and other cities close to Junagadb for a non-violent invasion.

The students in the Junagadh Vidyarti Sangh threw their limited weight against the Nawab also. 'We were too scared to carry out physical sabotage like attacking power stations,' said Vakharia. 'So our sabotage consisted of spreading false rumours to cause panic, and supplying information back to the provisional government. We used to send someone to Jetalsur or Jedpur in the Indian union to pass on the information.'

In Junagadh, as in many other parts of India, the partition steadily developed a murderous communal nature. Two Muslim communities, called the Sodhana and Vadhana, had taken a militant position in support of accession to Pakistan and mounted big processions through Junagadh, threatening Hindus with ret- ribution if they opposed it. As it became clear that Pakistan was in no position to support the Nawab, Hindus turned on the Muslim minority and massacred whole communities in some outlying villages.

Food shortages developed, and the Nawab's revenues dried up. As his administration lost its grip, the Nawab decided the game was up and made a hasty departure for Karachi, taking with him all the cash and negotiable assets of the treasury, his family and many of his dogs (though his consort, the Begum, forgot her youngest child in the royal nursery and had to turn back to collect the infant). On 8 November, after an earlier meeting of the State Council, Bhutto wrote to the Indian Government's representative at Rajkot asking India to take over the state to avoid a complete administrative breakdown, pending a honourable settlement of the accession issues.

The Indian Army moved into Junagadh without incident on 9 November, and the communal tension quickly settled down. However, Vakharia recalls a small communal riot breaking out in Junagadh soon after independence, when some shoe shops belonging to Muslims at Panch Hatadi (Five Shops Area) were looted by Hindus. The students of the Junagadh Vidyarti Sangh went to the area to protect the Muslim shops, but their presence was misunderstood by the police.

One of the students was a fellow Modh Bania and boarding house companion of Dhirubhai named Krishna Kant Shah, who had been born in Kenya and sent back to Junagadh for his education. He was arrested by the police as one of the looters and taken to the lockup early in the evening. The leaders of the Sangh went to the police headquarters and met the police commissioner, named Lahiri, to argue Shah's innocence.

'Dhirubhai [who was then 16] showed a lot of courage in arguing with the police commissioner to defend Shah,' Vakharia said. 'The arguments went on for two or three hours, and all of us were threatened with arrest for obstruction of justice. But we were determined we would not go until our colleagues were released. Eventually they decided to let Shah go at midnight.' It was a debt Dhirubbai was to collect from Shah in controversial circumstances more than 30 years later.

The people of Junagadh voted overwhelmingly to join India when a plebiscite was held in February 1948, though Pakistan never recognised it. Dhirubhai returned to his studies, and took his matriculation in 1949. Vakharia studied law and continued with his political activity, following Narayan out of the Congress Party into the new Socialist Party in 1948. On graduating in 1951 he moved to practise in Rajkot and then Ahrnedabad, and eventually came back into the Congress later in an active legal- political career.

With his family still extremely poor, Dhirubhai had no such option. On finishing high school, he had to look for work. At the age of 16, Dhirubhai was physically strong, and already possessed of the persuasiveness that was to mark his later business career.

It is tempting to look into the culture of the Modh Bania for an explanation of what his critics see as his ruthless business ethics and 'shamelessness'. But many other entrepreneurs have also sprung from the same background in Kathiawar: most would shrink from the manipulation of the government that became part and parcel of the Ambani operation, even at the cost of less success.

The answer lies probably in the deep poverty that his family endured as the cost of his father's devotion to a teaching career. While he also learned that life is a web of relationships and obligations, Dhirubhai was fired with an ambition never to become dependent on anyone or to stay long in somebody else's service.

LESSONS FROM THE SOUK

Early in the 1950s, officials in the treasury of the Arabian Ekingdom of Yemen noticed something funny happening to their country's currency. The main unit of money, a solid silver coin called the Rial, was disappearing from circulation. They traced the disappearing coins south to the trading port of Aden, then a British colony and military bastion commanding the entrance to the Red Sea and southern approaches to the Suez Canal.

Inquiries found that an Indian clerk named Dhirubhai Ambani, then barely into his twenties, had an open order out in the souk (marketplace) of Aden for as many Rials as were available. Ambani had noted that the value of the Rial's silver content was higher than its exchange value against the British pound and other foreign currencies. So he began buying Rials, melting them down, and selling the silver ingots to bullion dealers in London. 'The margins were small, but it was money for jam,' Dhirubhai later reminisced. After three months it was stopped, but I made a few lakhs [one lakh = 100000 rupees] of rupees. I don't believe in not taking opportunities."

Dhirubhai had gone to Aden soon after finishing his studies in Junagadh at the age of 16, following the long tradition of boys from Bania families in Kathiawar heading for the Arabian trading ports or the market towns of East Africa to gain commercial experience and accumulate capital.

A network of personal contacts kept jobs within the same community. Dhirubhai's elder brother Ramniklal, known as is Ramnikbhai, had gone to Aden two years before, and was working in the car sales division of A. Besse & Co. Founded by a Frenchman named Antonin Besse, the company had developed from trading in animal hides and incense between the world wars into the biggest commercial house in the Red Sea area, selling cars, cameras, electrical goods, pharmaceuticals, oil products and food commodities to both British and French territories in the Arab world and the Horn of Africa, as well as to Ethiopia.

Another Gujarati, Maganbhai Patel, from the Porda district, joined Besse as a junior accountant at the age of 18 in 1931 and was made a director in 1948. He estimates the company controlled about 80 per cent of the region's commerce soon after the Second World War. It had 30 branches, and six to eight ships of its own in the subsidiary Halal Shipping. It was indeed successful: shortly before his death at the age of 72 in 1948, Antonin Besse made a donation of one million pounds to endow St Anthony's College in Oxford.

Thereafter, the company was run by two of his sons, Tony and Peter. It employed over 10 000 people, of whom about 3000 were Gujaratis hired as clerks, salesmen and middle management. Susheel Kothari went to work for Besse in 1952 from Wallibhipur in Saurashtra, in a group of 14 recruits hired after interviews in Rajkot. Besse trusted Indians as honest and loyal, he recalled. While not paid nearly as much as European expatriates, they enjoyed a standard of living that periodically drew complaints from the British colonial administration for forcing up wages generally On one occasion, Tony Besse had told the governor to his face that it was 'None of your business what I pay'.

When Dhirubhai left school, his brother Ramnikbhal put in a word for him with Maganbhai Patel. On his next leave back in Porda, Patel invited Dhirubhai to come over for an interview. 'My first impression was his way of walking,' recalled Patel, imitating a heavy, decisive footstep. 'It was as if time was short and he had to get ahead, to reach a goal.' Patel asked him to read from The Times of India and then write a summary in English, a test Dhirubhai passed satisfactorily.

He was hired, and soon after arrived by steamer in Aden. As Susheel Kothari notes: 'The first sight of Aden is always a shock.' The oil-filmed blue waters of the port are backed by steep crags of dark-brown rock, remnants of an old volcano, with no sign of vegetation.

Aden had flourished in Roman times as a way station on trading routes between Egypt and India. The opening of the Suez Canal in 1869 revived its importance, and it became a major coaling port for European shipping to Asia and Australasia. From its occupation by a detachment of Indian sepoys sent by the East India Company in 1839, Aden had been an important link in the ties of Britain to the Indian Raj. Until 1937, when it was put under the Colonial Office in London, the territory was administered from India. The Indian rupee circulated as its currency until it was replaced by the East African shilling in 1951.

The outpost had been a punishment station for British regiments deemed to have shown cowardice or other offences against discipline while in India. As one of its last governors, Charles Johnston, noted in a memoir, it had been 'the dumping ground, even as late as between the wars, to which regiments sent officers who had got themselves into matrimonial difficulties'.

The colony also became the entrepot for the Red Sea and Horn of Africa, where deepwater ports were few. Cargoes of cattle hides, coffee, aromatic gums and pearl shell were brought to Aden by wooden sailing dhows, and bought by trading firms like Besse, Cowasji Dinshaw, Luke Thomas and Cory's. In return, basic commodities such as sugar, rice and textiles were shipped back.

Between the world wars, the biplanes of the Royal Air Force kept the hinterland quiet by machine-gunning the villages of any unruly Yemeni tribesmen. Behind this shield of bullets, the middleman trade flourished. The definitive historian of British rule in Aden, R. J. Gavin, noted:

Aden indeed consisted of a hierarchy of brokers from the heads of foreign firms to the lowest workman or child who offered his labour or hawked in the street. Speculators, hoarders and price rings frequently sent commodity and foodstuff prices rocketing up and down, while moneylenders and dealers darnpened the effect of this for the rest of the population at a price which included a claim to social leadership. Acquisitive individualism was mitigated only by ethnic and other local solidarities formed outside rather than within the town.

Aden's economy developed rapidly after the Second World War, but its business milieu still had some of this character when Dhirubhai learnt his basic techniques in the 1950s.

The spur to Aden's growth was the decision of British Petro- leum to build a new oil refinery in Little Aden, another crater jutting into the sea across the bay from the main town. BP's existing refinery in the Gulf port of Abadan had been nationalised by a new Iranian government. The refinery employed up to 11000 workers at any one time during its construction over 1952-54, and then had a permanent staff of 2500 housed in a comfortable village. This sparked off a construction boom which saw Aden extend beyond the wastes and saltpans of the causeway which had been kept clear for defensive reasons in earlier times.

Later in the 1950s, the British began concentrating strategic reserve forces in Aden from other bases in the Gulf and East Africa. By 1964, Aden had some 8000 British military personnel plus dependents-and their demand for housing kept the construction activity going. Aden's population grew from 80000 in 1946 to 138000 in 1955.

It became a more modern economy, and airconditioning ameliorated the hot humid weather in the midsummer months. But it retained many exotic features, including the daily inward flight by Aden Airways of the mild narcotic called qat. From a hedge- like bush in the mountains of Ethiopia, the qat leaves had to be consumed fresh and were delivered to consumers in Aden within a few hours of plucking at dawn. 'It is not medically harmful, so far as can be ascertained,' noted Johnson, the former governor, 1although if taken in excess it lowers the appetite and produces a characteristic green-faced, cadaverous appearances

Just before mass air travel arrived with the first passenger jets, Aden overtook New York in 1958 to become the biggest ship- bunkering port in the world. As well as for cargo shipping and tankers, it was a refuelling stop for elegant liners of the P &- 0 and Orient Lines as well as crowded migrant ships taking Italians and Greeks out to Australia.

Disembarking tourists, brought ashore in launches from the ships moored out in the roadstead, were immediately surrounded by desperate Arab and Indian salesmen and touts, offering cheap cameras, fountain pens, transistor radios and tooled-leather items. After making their purchases and taking a quick taxi tour around the arid town, most were glad to get back to their P & O comfort and security. Aden had an air of menace, of repressed resentment at its naked display of foreign military and commercial self-interest. As Gavin observed: 'For a thousand years or more Aden had essentially belonged to the merchants of the world, be they South Yemeni or foreign, while the people of its hinterland watched with jealousy and poverty-stricken eyes from beyond its gates. But for the young Gujaratis hired by Besse & Co, Aden was a kind of paradise and most recall their days there with great affection and nostalgia. 'We felt it was heaven,' said Himatbhai Jagani, a former Besse employee who had been born in Aden, the fifth generation of his

family to live there since their original migration from Gujarat early in the 19th century 'It was tax free virtually, and we never saw an electricity bill or rent bill till we left. For 14 of us in our mess we paid only 400 shillings a month for food. We could save about half our salary It was very comfortable-we all missed that life.'

Home leave of three months came after 21 months straight work in Aden or at one of the Besse outposts around the Red Sea. The Besse employees went home with their savings to spend by P & 0 liners like the Chusan or Caledonian, sometimes by Flotte Lauro of Italy, and if nothing else, India's Moghul Lines.

While most of the British residents lived on the slopes above Steamer Point, socialising at the Gold Mohar beach club nearby, the 15000 Indians clustered in a few streets of the Crater district-Sabeel Street named after a refuge for stray and injured animals set up by rains and Hindus, Danaraja Street, and Bencem Street, named for the prosperous Jewish trading community that once thrived in Aden and Yemen. The Besse & Co bachelor’s mess occupied four or five buildings nearby in Aidroos Valley.

The Crater had all the features of the Orientalist watercolours that adorned European drawing rooms at the turn of the century, as described by Governor Johnston:

Indian merchant families, the women in saris, the men in their white jodhpurish get-up, are taking the air, immaculate after the siesta. We drive around a market square with fruit glowing on the stalls, and enter a narrow street fairly buzzing with exotic life-pastrycooks, water-sellers, coffeernakers, carpet merchants, all the usual figures of the Oriental bazaar-and pervading the whole thing a strong hot smell Of Spice.

The various expatriate communities lived in their own social circles, where, in the way of 'hardship posts', attachments were strong and recalled with nostalgia in later life. The Hindus from India were probably liked the least by the local Arabs-to whom Muslims from India and Pakistan complained about India's incorporation of Kashmir and Hyderabad, but filled a need for white-collar staff that Aden's schools could not meet, and had their own social circle too.

While his brother Ramnikbhal worked in the automotive division, Dhirubhai was assigned to the Shell products division of Besse. As a newly arrived youngster he created an early splash, literally, by taking a bet while out helping bunker a ship in the harbour that he could not dive off and swim to shore. The prize was an 'ice-cream party'-which he won, by swimming through waters that had seen occasional shark attacks on swimmers outside the nets of its beaches.

As he developed more familiarity with the trade, Dhirubhai was sent to market Shell and Burmah lubricants around the Besse network, visiting traders in French Somaliland, Berbera, Hargeysa, Assem, Asmara (Eritrea), Mogadishu (Italian Somaliland), and Ethiopia. Some places were not accessible to steamers, so the Besse salesmen would travel by dhow, the traditional wooden sailing vessels of Arabian waters. Lodgings would be extremely rough, and the food difficult for the vegetarian Gujaratis.

Dhirubhai was outgoing, robust, and helpful to newcomers. He was physically strong and proud of his physique. The other young men tended to be bashful about nakedness in their shared bathrooms, and a common prank was to whip away the towels they wrapped around their waists while crossing the living space in the mess. Dhirubhai would walk around without hiding behind towels. His solid footsteps could be heard from a distance, and his colleagues soon started calling him 'Gama' after a famous Indian pehelwan (wrestling champion) of the time. Navin Thakkar, a former colleague at Besse, remembers that Dhirubhai taught him to swim by simply throwing him into the sea, at the swimming place down near the Aden dockyard where they used to go on Saturdays and Sundays.

Dhirubhai delighted in stirring up pandemonium. Old colleagues describe it as bichu chordoa or 'letting loose a scorpion'.

Despite his affability, some of his old colleagues describe Dhirubhai as a 'dark character'-not just because of the darkish skin he inherited from his father-but for the ambition and risk-taking he hardly concealed. 'Ramnik was more or less a saintly man,' said one ex-Besse colleague who later went to work

for Dhirubhai. 'Dhirubhai was a daring one. He was already advising me to go for business and not to remain in service.'

Dhirubhai's career with Besse was progressing steadily, and the Shell Division was one of the most rapidly expanding areas of company business. By 1956, when the Suez War broke out after Egypt's President Nasser nationalised the Suez Canal, Dhirubhai was managing the Shell refuelling operation at the Aden military base. He was also able to observe construction of the BP oil refinery in Aden, gaining an early insight into the production linkages of the petroleum industry.

In March 1954, Dhirubhai married at the age of 22, in a match arranged by his mother (his father had died in 1951) but which Dhirubhai himself had supervised. His partner was Kokila Patel, the daughter of a postmaster in Jamnagar, the port on the western side of Kathlawar. Her family was not particularly wealthy, so it was not a financially advantageous match for Dhirubhai. But Kokilaben' was also a Modh Bania, as the strict caste endogamy of the time demanded and her character complemented that of Dhirubhai, a solid home anchor very much, grounded in traditional values and religious piety.

Although he was doing well, Dhirubhai was far from happy with his position as an employee. 'I saw in him he was somebody that was different than others,' recalls M. N. Sanghvi, who worked alongside Dhirubhai in the Shell division and later went to work for him back in India. 'I could see he wanted to make something of himself.' His room-mate Susheel Kothari also remembers the ambition. 'Right from the beginning he was determined to do something big,' Kothari said. 'He was never comfortable in service. He was a born businessman.'

After office hours, which finished at 4.30 in the afternoon, Dhirubhai would invariably head for the Aden souk. Initially he just watched the Arab, Indian and Jewish traders in action. Later he began taking positions in all kinds of commodities, particularly rice and sugar, in gambles against rises and falls in prices at time of delivery Doing business on one's own account was strictly forbidden to Besse employees by the terms of their contract, and his older brother Ramnikbhai disapproved, so Dhirubhai would simply say he was 'studying the market'.

Dhirubhai made some profits, and learned the fundamentals of business and money. But he also made some near disastrous mistakes, which almost wiped out his capital. On one occasion he suffered a tight financial squeeze when an incoming cargo of sugar was damaged by sea-water and his customer refused to accept delivery Pending settlement of his insurance claim, Dhirubhai had to pass the hat among Besse colleagues for loans to bail himself out.

One particular ally was a Besse employee named jamnadas Sakerchand Depala, a relative by marriage, who lent Dhirubhai 5000 shillings on this occasion. Depala was close to Dhirubhai and the two usually had lunch together, even after Dhirubhai had married. It was an odd relationship, another attraction of opposites. Depala was not a worldly man and lent money again to Dhirubhai for his 'market studies', but had a strong influence nonetheless. 'Jamnadas was morally in control of Dhirubhai,' said Susheel Kothari, who had been in the same bachelors mess with Dhirubhai. 'If Dhirubhai was drinking too much, no one else could stop him. He'd just swear at them. Kokilaben used to call Jamnadas and Dhirubhai would listen to him.'

According to one version of events, Jamnadas made considerable sacrifices for Dhirubhai. One one occasion, so this story goes, Jamnadas and Dhirubhai were reported to Besse management for their private deals, and got suspended from service. Jamnadas took responsibility and resigned from service, allowing Dhirubhai to complete the seven year's service that earned him the right of residence in Aden.

Another story told by ex-Besse staff is that, after leaving the company, Jamnadas continued to invest in rice and sugar deals masterminded by Dhirubhai, and lost heavily, to the point of losing most of his capital. Jagani remembers Jamnadas being 'very depressed' around 1961. Whatever the truth of this, Dhirubhai continued to act as though he was in debt to Jamnadas. Some years later, Jamnadas came back to India and was given a shop selling textiles for Dhirubhai. After a while Jamnadas stopped coming to work, but Dhirubhai saw that his salary was paid until his death in 1987.

Dhirubhai left Aden in 1958, with his seven years service and right of residency as a failback, to try his hand in business back in India.

The house of Besse lasted only another nine years, as long as British rule in Aden, which was being eroded by the sandblast of pan-Arabic nationalism. Some of the transistor radios sold at Steamer Point found their way to the villagers of the Yemen hinterland, who picked up President Nasser's message of Arab nationalism through Radio Cairo. Resulting hit-and-run attacks by rival liberation fronts made Aden unsafe for foreigners. In the second half of 1967, British forces pulled back into an ever- tightening perimeter until the rearguard was lifted out by heli- copter to a naval task force offshore on 29 November 1967.

The territory fell unconditionally to the National Liberation Front. It applied its harsh version of Marxism-Leninism, abolishing private property and nationalising most foreign companies. By then the closure of the Suez Canal in the 1967 Arab-Israel war had cut Aden's bunkering business. Racked by periodic coup attempts and wars with northern Yemen, the new state of South Yemen became an economic back-water and haven for international terrorists-a modern version of the pirates' lair the British first subdued.

Besse &- Co was among the companies appropriated by the new regime. From retirement in France, former director Peter Besse wrote in 1996 that the 'vast trading empire . . . of my father collapsed on the arrival of various "People's Democratic Republic" governments. Today nothing is left.

CATCHING LIVE SERPENTS

At the end of 1958, Dhirubbai returned to India with his wife Kokilaben and first child, a son named Mukesh. They were expecting their second child (another son, Anil, born in June 1959, to be followed by daughters Dipti, born in January 1961, and Nina, born in July 1962). From all his years with Besse & Co and all his evenings 'studying the market' he had accumulated savings of just 29000 East African shillings-then worth about US$3000-which, as his Besse colleague Susheel Kothari had reminded him, would be just 'chutney' back in his homeland.

Dhirubhai was determined to go into business on his own account. At first he looked at Rajkot, the port city in his native Saurashtra facing the Rann of Kutch. Krishnakant Vakharia, who was then practising law in Rajkot, remembers that Dhirubhai came to visit. 'He was toying with the idea of a dealership in automobile spare parts there,' Vakharia said. 'I had a friend who was doing just that, and who was not doing very well. So I advised Dhirubhai that he should not go into this business, and instead of Rajkot he should go to Bombay.'

At Dhirubhai's request, Vakharia accompanied him down to Chorwad and stayed there a few days while Dhirubhai sounded out friends and acquaintances about ideas and help. He found support in the family of Chambakial Damani, a second cousin (Dhirubhai's grandfather and Damani's grandmother were brother and sister) who had been working in Aden for family companies at about the same time that Dhirubhai was there. One business, Madhavas Manikchand, had imported textiles and yarns from India, ran a transit business into Ethiopia, and held the agency for Bridgestone Tyres. The other, Anderjee Manekchand & Co, had imported textiles from India and Japan. When necessary, Dhirubhai had used the names of these firms during his own after-hours trading.

Damani's father, Madhaylal Manikehand, had closed his busi- nesses in Aden and Ethiopia on retiring in 1957, and decided to put Rupees (Rs) 100 000 into a trading business for his son and Dhirubhai in Bombay. Vakharia saw the agreement concluded in his presence, and returned to Rajkot.

Dhirubhai and Chambaklal called their new business Reliance Commercial Corp. The first office was a room of about 350 square feet in Narsinathan Street, in the crowded Masjid Bandar district of Bombay. It had a telephone, one table and three chairs. If the two partners and their initial two employees were all present, someone had to stand.

At first, the business traded spices back to the partners' contacts in the souk of Aden-betel nut and curry ingredients- and shipped some cotton, nylon and viscose textiles to Ethiopia, Somalia and Kenya. But local contacts led them quickly into the frenetic and potentially profitable business of trading synthetic yarns - one of more than 60 commodity markets serving all of India that were located in Bombay, nearly all of them run by Gujaratis. The Rajkot lawyer Vakharia had introduced Dhirubhai to a fellow activist in the Socialist Party, a successful yarn trader called Mathura Das Mchta. And Dhirubhai's talented nephew Rasikbhai Meswani (the son of Dhirubhai's older sister), had begun trading in yarns a couple of years earlier.

At the tiny Masjid Bandar office, Dhirubhai began to assemble a team that stayed with him for decades as Reliance grew. They included Meswani, older brother Ramnikbhai who had also returned from Aden, younger brother Nathwarlal (Nathubhai) on completing his education, and two former schoolmates from Junagadh named Rathibhai Muchhala and Narottambhai Doshi. Dhirubhai also enlisted the services of old acquaintances from Aden, including Liladhar Golkaldas Sheth, who had been a dealer in textiles, coffee and foreign exchange in Yemen, Burma and Aden (suffering several bankruptcies along the way) before settling back as a foreign exchange dealer in Bombay in the 1950s.

Dhirubhai quickly became a familiar figure around the streets of Pydhonie, the synthetic yarn trading district of Bombay where Gujarati merchants then did their business sitting on spotless white canvas gaddi floor-coverings, entering trades in compendi- ous ledgers, and consuming endless cups of tea thick with sugar, spices and hot milk. From late morning until about 4 pm, Pydhonie was busy with trading as dealers made forward trades, trying to guess the future price of yarn of this or that micron size.

If cotton and silk had been the materials of India's textile industry right from the old handloom days to the industrial looms of the early 20th century, by the 1950s the industry and its consumers were hungry

for the artificial threads created by modern chemical science. Nylon, viscose and polyester were cheap, hardwearing, quick-drying and creaseproof, and could imitate both cotton and silk.

The problem for yarn dealers at Pydhonie was not usually to find buyers but to secure supplies. The tightening of industrial controls and import quotas since Independence had choked supply of these 'luxuries' as the economic Brahmins of New Delhi channelled national resources towards new complexes making capital goods such as power stations and steel mills-what Prime Minister Jawaharlal Nehru called the 'temples of modern industry'.

India had one viscose factory owned by the Birlas, and one government-owned nylon plant. The first polyester fibre plant did not open until the 1970s. These domestic factories supplied only a small fraction of local demand from textile weavers. Smugglers supplied some of the demand, bringing in yarn by either misdeciaring cargoes at regular ports or simply running small ships to the numerous creeks and beaches of India's west coast. Made-up textiles were also smuggled as well, via Dubai or Singapore. Indian visitors to Japan's artificial textile industries, then in their great postwar expansion phase, recall seeing vast production of sari-length material, for which officially there was no open market in the subcontinent at all.

The other source came from the strictly controlled import licences given to registered exporters of textiles, allowing import of raw materials worth a certain percentage of their export earnings. Like many others, Dhirubhai realised that these import or 'replenishment' licences (known as REPS) were as good as money, even though some of them were officially not transferrable and imports had to be made by the 'actual user' of the materials. By paying higher margins than any other traders, Dhirubhai soon became the main player in the market for REP licences. The margins were tiny in the trade itself - but his dominance also put him in the position of being able to turn on and off much of the supply of yarn into the Indian market.

Suresh Kothary, whose family business was importing agent for Du Pont products including textile fibres, chemicals and dyes from 1958 to 1993, and also active in yarn trading, remembers first meeting Dhirubbai in 1964 at the Masjid Bandar office. Dhirubhai would often drop by at Kothary's shopfront at Pydhonie thereafter, lounging on the white cotton mattress and drinking tea or coffee. They were in effect rivals, as Dhirubhai mostly imported his yarns from Asahi Chemicals in Japan or Ital Viscosa via a long-resident Italian businessman in Bombay, a Dr Rossi, while Kothary handled only the Du Pont product from the United States and elsewhere. Dhirubhai was a sporting rival, Kothary said: 'He would always say: "This is what I'm going to do, boy!" Whenever he fights an enemy he goes in the open.' Not everyone in the Bombay textile trade would agree.

Kothary and many others in the Pydhonie market remember Dhirubhai's intervention in a market crisis in the mid-1960s when spiralling textile prices led government authorities to crack down on 'speculation' in the yarn market by banning forward trading, and then arresting traders found to be continuing the practice. 'Consumers must have complained to the government about fluctuations in prices-some people, about a dozen, were arrested in the market,' Kothary said.

The trading community was despondent as their colleagues languished all day in the cells of the Picket Road Police Station. Approaches to officials by the Bombay Yarn Markets and Exchange Association got nowhere. Then, late in the evening, Dhirubhai arrived like a storm at the police station, shouting greetings to the senior officers, and handing out snacks to everyone. Within an hour, all the arrested traders had been released, and the complaints against them shelved. Kothary can only guess at Dhirubhai's intervention. 'The usual-India!', he said.

Dhirubhai also emerged as saviour of the market when an even greater supply crisis occurred in 1967, Kothary recalled. On a report that 'actual user' import licences had been traded and misused, the Customs authorities in Bombay under the then Assistant Collector, a Mr Ramchandani, impounded all incoming cargoes of artificial fibres. The government insisted that whoever imported the yarn had to be the manufacturer who wove it into cloth.

According to Kothary, about 40 million rupees (then about US$5.3 million) worth of yarn was seized. Many traders then defaulted on loans taken out to cover the imports. The entire artificial textile market was paralysed. 'It could have made us all insolvent,' Kothary said. 'This is when I came very

closely in touch with Dhirubhai. It was he who saved us all. We fought for about six months. I used to go with him to lawyers day in and day out. We went to Delhi to see Morarji Desai [then finance minister]. That was the time I could see he was a wizard. He used all the ways and means.'

The crisis ended as quickly as it started, ostensibly after a one-day hearing of the importers' appeal in the Customs, Excise and Gold Appellate Tribunal under Justice Oberoi, who found for the appeal. Kothary indicates that an agreement engineered by Dhirubhai was behind the judicial settlement. The details are not revealed, but presumably come under the category of 'That's India!' also.

On their move to Bombay, Dhirubbal and his young family had moved into an apartment on the 3rd floor of the Jal Hind Society building in Bhuleshwar, a very crowded district of shops, markets and residential tenements in the central part of the city. The building is what is known as a chawl in Bombay: numerous small apartments, often just single rooms, opening on to open galleries around a central courtyard which is set back from the street behind commercial premises. Quite often the toilets and washing facilities are shared at ground level.

Later accounts of Dhirubhai's early career often paint this home as Dickensian in the extreme. The flat, since bought by a later tenant, had two small bedrooms, a living room, kitchen and internal bathroom in 1995. Vakharia, who used to visit the Ainbanis for a holiday each Christmas from 1959 to the late 1960s, remembers it being 'quite luxurious' compared to the single rooms many Gujarati families had to occupy in Bombay at that time.

Even so, Dhirubhai and his young family, eventually two boys and two girls, lived austerely in surroundings that were crowded, noisy and dirty. The two sons, Mukesh and Anil, who took over day-to-day management of Reliance in the late 1980s, may have had engineering degrees and MBAs from American universities, but their lean early years gave them a hungry ambition unusual in the second generation of a successful Indian business family

As his confidence grew in his Bombay success, Dhirubhai developed his taste for 'letting loose a scorpion' through practical jokes and whimsy. Vakharia recalls that when he visited Bombay with his new wife for the first time in 1959, he and Dhirubhai were invited home by their senior mentor Mathura Das Mehta. Mehta's wife served the young men mango juice, and kept insisting on refilling their glasses. 'Dhirubhai whispered: "Let's do some mischief,"' Vakharia said. The two asked for a fourth glass, and kept then accepting more. After more than a dozen glasses each, the Mehta kitchen ran out of mangoes and a servant had to be sent to the market to buy more, which were all duly consumed. The Mehtas continued to be friends, 'but they never invited us back for any lunch or dinner at their house', Vakharia said.

Each year, Dhirubhai would make it a point to play an April Fool's joke upon an elderly employee named Ghulabchand, an old associate from Aden. For all his experience, Ghulabchand never failed to fall for it. On one occasion, Dhirubhai announced that everyone was invited to dinner across town at an address at Mafatlal Bath. Ghulabehand was sent in a taxi with Vakharia and another member of the office, Ramanbhal. At Marine Drive they stopped outside a building, and Patel went in to look for a fourth member of the group. After 15 minutes waiting, Vakharia also went in. Ghulabchand eventually gave them all up and took the taxi to Mafatlal Bath, where he found no one. On returning home, he found Dhirubhai and the others eating a dinner they had notified Ghulabchand's wife to prepare.

Vakharia recalls another prank in 1965. The India-Pakistan War was on, and a blackout had been imposed on Bombay for fear of naval and air attacks by Pakistan. About 10 pm, Dhirubhai said: "Let's go out and take a round of the city."' The two drove around the dark Bombay, with Dhirubhai bluffing police at roadblocks that he was on official business and handing out small tips of ten rupees or so. 'He got saluted all the way,' said Vakharia. 'On the way back we saw some lights in the Japanese consulate, so Dhirubhai went in and told them to douse the lights.'

On yet another occasion, around 11 pm on a cold winter night, Dhirubhai announced an immediate picnic. The cook was told to assemble supplies, and Vakharia and the family piled into Dhirubhai's car. Another dozen friends were telephoned and told to rendezvous in their cars. 'We were not told where we were going,' Vakharia said. 'We ended up at Rajeswari, about 50 or 60 kilometres from Bombay at about 3 am. The cold was very severe and we went to a dharamsala [pilgrim's lodging] at a hot springs resort. It was meant only for sadhus [ascetic Hindu holy men]. Dhirubhai said we would all sleep there. After half an

hour we were still shivering and Dhirubhai got up and lit a camp fire. When the sun came up we had tea, and a bath in the hot springs, and cooked kedgeree on the camp fire. We told jokes and sang songs, and didn't get back home until late in the afternoon.'

Dhirubhai's fast pace caused a rift with his partner Chambaklal Damani in 1965. According to Vakharia, Damani preferred to trade with great caution, leading to constant tension with Dhirubhai who was a risk-taker. The final rupture came after one clash when, at Dhirubbai's urging, Reliance built up a large holding of yarn in the expectation of a price rise. Damani pressured Dhirubhai to cut back their exposure. So Dhirubhai sold the yarn stockpile-to himself, in secret. Two or three weeks later the price of yarn shot up and Dhirubhai made a killing. 'Later Dhirubhai told Chambaklal: "I am prepared to share profit with you,"' Vakharia said. '"But in future if you do not know the business do not intervene."'

Many others among Dhirubhai's ex-colleagues and trade associates also believe the partners were incompatible.

'He takes so much risk that people fear something will go wrong,' said Vradial Depala, who knew Dhirubhai in Aden. 'But the risks are all calculated. They are not blind risks.'

'You may be a co-passenger in a car with me, but if you don't like my driving you might be a little fearful,' said Manubhai Kothary, a leading Bombay textile exporter and longtime president of the Silk and Art Silk Mills Research Association.

'Someone advised Dhirubhai's partner that he had made sufficient money and now should come out,' said Susheel Kothari, the ex-colleague from Besse &- Co who later worked for Reliance. 'Dhirubhai's business is catching live serpents.'

Chambakial Darnani himself will say only that 'We agreed to separate willingly' or that 'We just became separate as friends'. But he agreed that the version given by Kothari and others about differences over commercial risk were 'to some extent true'. Damani went into trading in a new company, while Dhirubhai and his brothers paid some Rs 600 000 to buy him out of Reliance. Soon after, Dhirubhai moved the office to bigger premises in the more central Court House building at Dhobi Talao, named for the laundrymen who originally worked in the area.

After ten years at Bhuleshwar, in 1968, Dhirubhai moved his home out of the chawl to a more comfortable flat in Altamount Road, one of the city's elite areas on a hill overlooking the Arabian Sea. Fond of driving fast, Dhirubhai had first bought a Fiat car, and then moved on to a Mercedes-Benz. Later, in the 1970s, he indulged a taste for flashy automobiles by acquiring a Cadillac, one of the very few in the country then or since. Friends remember him as a dashing figure, the slightly dark skin inherited from his father (the only such characteristic, some say) offset by a white safari suit, the hair slicked back into a duck's tail. For a while he put on weight, and then trimmed down by taking vigorous dawn walks along the three-kilometre sweep of Bombay's Marine Drive, enlisting friends, colleagues and neighbours as companions.

Within a year of splitting with Damani, Dhirubhai took Reliance into textile manufacturing for the first time. He decided to locate it in Gujarat rather than Bombay, because of the cheaper land prices, and sent his older brother Ramnikbhal to select a site. Ramnikbhai enlisted Vakharia, then starting to get known as a lawyer in Ahmedabad, and the two drove around the state in a small Fiat.

They settled on a 10000 square metre plot, the last going in a new industrial estate developed by the Gujarat state govern- ment at Naroda, on the fringes of Ahmedabad. Vakharia had got a contact, state minister for industries Jaswant Mehta, to approve the purchase, and by a further stroke of luck the farmers owning some 100 000 square metres of adjacent land were willing to sell. Dhirubhai had a simple factory built, installed four knitting machines, and appointed his brother as plant manager.

Dhirubhai was again lucky in that, around this time, the British hold on Aden was becoming more tenuous. Even ahead of the British withdrawal in 1967, foreign nationals felt threatened by the insurgency mounted by the People's Liberation Front. Many of the Indians working for Besse &- Co decided it was time to go home. So Dhirubhai had a ready-made source of educated managers, accountants and salesmen, drilled to European standards.

The word went around that Dhirubhai would find jobs for his old colleagues, and a dozen old hands from Besse & Co accepted his offer. Most stayed for the rest of their working careers, with the last few being retired from senior management positions in 1993 in a deliberate move by Dhirubbai's sons to rejuvenate the company's leadership.

None of them knew very much about textile production, however, and it was a case of learning by trial and error. All of us were new,' recalled M. N. Sangvi, who left Aden in 1967 and immediately joined Reliance. 'It was very small, only about 20 people in the whole factory, about five or six from Aden. Nobody was familiar with textiles, and after 15 years in Aden I was not knowing anything about India either. The first two years, 1966- 67, was a very hard time. The product had to be established. We worked from morning to late evening. Dhirubhai was very encouraging, and we had a family atmosphere. The employer- employee relationship was not there. He put a lot of trust in us'.

Susheel Kothari, who had returned from Aden in 1966, said that at one point in 1967 it appeared the mill would have to close down because Reliance could not sell the cloth it was making. Dhirubhai told Kothari that if the factory had to shut down he should do it gradually and see that no blame attached to his older brother Ramnikbhal. But the Aden hands rallied. After putting in a full shift at the factory in Naroda, from 7 am to 3 pm, they would spend the afternoons and evenings touring markets around Ahmedabad trying to persuade shopkeepers to stock Reliance fabrics. 'We were determined we should not fail,' Kothari said.

Dhirubhai worked everyone hard, often calling his managers in Naroda at 6 am from Bombay before they started out to work. They were expected to solve problems on their own initiative. Dhirubhai himself set the example. Suresh Kothary recalled one incident when spare parts were urgently needed for imported machines at Naroda. Dhirubhai had the parts flown in from Germany, and then discovered that no trucks were available for the haul up to Ahmedabad. He bought two trucks, one to carry the parts and one as a backup, and sent up the consignment. The trucks were then sold in Ahmedabad.

But he was forgiving of honest mistakes, recalls Sangvi. In one case, Sangvi was overtrusting of some merchants who had placed an order from Patna, the capital city of Bihar state across in eastern India. Sangvi sent the consignment by rail, collectable on presentation of a payment receipt at a Patna bank branch. The merchants forged the receipt and took delivery from the railway yard. Reliance lost 900000 rupees, a considerable sum at that stage, and it took months to recover it. Sangvi said: 'Dhirubbai just told me: "Nathu, nothing to worry-in business, anything can happen. I know you have done it to increase the sales. I am with you and you just concentrate on the business."' Reflecting back on his career, as vice-president of the Reliance textile division, Sangvi said: 'I feel myself very fortunate that I have been working under such a legendary figure.'

K. I. Patel, who had been recruited by his relative Maganbhai Patel to Besse and Co in 1953, returned to India in 1965. Soon after, Ramnikbhai Ambani, with whom he had worked in the Besse automotive division, hired him for Naroda and put him in charge of the knitting machines. Patel knew nothing about them, but was sent to West Germany and japan later for formal training. He stayed with Reliance until retirement in 1993. 'The years passed before we knew it, we were so busy,' Patel recalled.

The result was steady growth in sales and profits for Reliance. In 1967, the first full year of production at Naroda, the company recorded sales of Rs 9 million in 1967, yielding a net profit of Rs 1.3 million. Dhirubhai and his family shareholders refused to take dividends and kept ploughing earnings back into more machines. After a decade of manufacturing, in 1977 Reliance had a turnover of Rs 680 million, and profits of Rs 105 million.

In an extensive write-up on the company in August 1979, the Indian Textile Journal reported on a massive factory at Naroda occupying 230 000 square metres and employing 5000 staff. It had banks of machines for texturising or 'crimping' artificial fibres to give particular sheens, machines for twisting the polyester and nylon fibres into yarns, and machines for weaving the yarns into textiles. The yarns were sold to other Indian textile manufacturers, or used in-house.

Most significantly perhaps, Dhirubhai established his own brand name, Vimal (named after a son of his brother Ramnik), by dint of lavish advertising under the slogan 'Only Vimal'. This somewhat snobbish

slogan, and some well-publicised fashion shows in top-class hotels, added a touch of class to a product that basically appealed to the less wealthy market sectors. In addition, Dhirubhai had got around the reluctance of established wholesalers and shopkeepers to accept a new brand by creating his own network of shops. Across India, some 400 shops were franchised to sell the Vimal brand of polyester materials for saris, shirts, suits and dresses.

In one of the first of many eulogies to appear in the Indian press, the Textile Journal noted how Dhirubhai was held in 'high esteem' by his staff, who attributed Vimal's success to his dynamic leadership. 'When the construction of the factory was going on, it is reported, many snakes were seen in the area. According to a popular belief, appearance of snakes is a good omen. Dame Luck certainly seems to have favoured Mr Ambani. Ever since the emergence of Vimal, he has developed the Midas touch. Everything he touches becomes gold. Everything he starts blossoms into success. Naturally, nothing succeeds like success.'

A FIRST-CLASS FOUNTAIN

Dhirubhai Ambani remained in Bombay because manufacturing was only one facet of his business. For a decade, the textile plant at Naroda was supportive and subsidiary to his yarn trading activities. In addition, he was steadily augmenting his skills at breeding money from money, and at wielding political and bureaucratic influence on government policies and their interpretation. Dhirubhai was never simply an industrialist, a trader, a financial juggler or a political rnanipulator, but all four in one.

From his earliest days in Junagadh, Dhirubhai had learned that relationships were the key to unlocking help, and that the law could be argued with. 'One thing I have noted with Dhirubhai is that if he starts an acquaintance with someone he will continue it,' said Manubhai Kothary, the trade group Sasrnira's president. 'He never throws away any relationship.'

He was endowed with a photographic memory for faces and names, and any contact-however fleeting-he could try to turn into a common background on which some affection could be based. For example, Sir Nicholas Fenn, who was British High Commissioner in New Delhi in the early 1990s, was amazed to find Dhirubhai claiming him as an old friend from Aden. In the early 1950s, Fenn had been a Royal Air Force pilot flying transports through to the Far East and Australia. Dhirubhai remembered him from refuelling stops at the Shell facility at Aden's airport.

Dhirubhai's philosophy was to cultivate everybody from the doorkeeper up. 'I am willing to salaam [bow down to] anyone,' he told a magazine interviewer in 1985, in a statement that shocked many readers for its bluntness.

In the India of economic plans and government control of the commanding heights' that had developed by the 1960s, a lot of grovelling was required for businessmen to get the clearances they needed. Inevitably, the bureaucratic signature needed to move a file from desk to desk came to have a price on it as well. The Congress Party had degenerated from a movement of freedom fighters into a dispenser of patronage, with ministers allocating resources and licences while the bureaucracy worked out ways to make the process look objective.

After getting on his feet back in Bombay, Dhirubhai used to make frequent trips to New Delhi. He frequently went in the company of Murli Deora, a fellow yarn trader who was then working his way up the Congress Party machine in Bombay. Deora later became the head of the Bombay Municipal Corporation-the mayor-and then for many years the representative for South Bombay, the area containing the business district and elite apartments, in the Lok Sabha (the lower house of parliament).

Dhirubhai and Deora used to catch an early flight up to Delhi, and park their bags with a sympathetic clerk at the Ashoka Hotel while they did their rounds of politicians and bureaucrats to speed up decisions on import licences. Too poor to afford an overnight stay, they would collect their bags and fly back to Bombay the same evening.

Later, Dhirubhai could afford to keep a room ready at the Ashoka, a government hotel built in a vaguely Moghul monumental style. His nephew Rasik Meswani also came into the lobbying activity, and eventually selected a canny South Indian, V Balusubramaniam, as full-time lobbyist for Reliance in New Delhi.

For the lesser bureaucrats, journalists and others who helped promote the company's interest in various ways, Dhirubhai's standard gratuity was a suit or sari length of material made by his factory Gradually Dhirubhai also learned the channels for large-scale political donations in the top echelons.

In 1966, Indira Gandhi had become prime minister following the sudden death in Tashkent of Lal Bahadur Shastri, who had been India's leader since the death of her father jawaharlal Nehru in 1964. With her only ministerial experience the Information portfolio under Shastri, but a lifetime of watching her father and her late husband Firoze Gandhi in politics, Indira was well versed in Congress Party machinations but had a shallow grasp of policies. Power steadily exacerbated a deep psychological insecurity and a melancholic nature that led her to place inordinate trust on unworthy people in her inner circle, as well as on her headstrong son Sanjay, who was extorting funding for his pet scheme of developing an indigenous 'people's car'.

Among the sweeping economic changes of 1969 was one small legislative amendment that had the effect of entrenching corruption, though its ostensible intention had been the opposite. Until then, a section of the Companies Act allowed directors to make political contributions to any party. This was repealed in 1969. As one of the officials who supervised the amendment later admitted, this led to political payments by 'black' money. 'Companies had to generate black funds by under/over invoicing, fictitious sales etc. A pattern of wholesale corruption and large- scale corporate malpractices, through double-accounting, over- invoicing and under-invoicing, came into being, creating massive unaccounted-for and therefore untaxed funds."

One of the conduits to Indira Gandhi was a private secretary named Yashpal Kapur, a Hindu the Western Punjab in the 1947 Partition who displayed all the financially grasping tendencies this community brought across to Delhi. In “All these Years”, her memoir of the Nehru and Indira Gandhi years, the well-connected magazine publisher Raj Thapar recalls Kapur thus: ,”. . . one glance at him and you felt the grease all over you. He was smooth and unintelligent, outwardly vacuous and inwardly scheming who then only performed what we called the chal-pani [tea-making] jobs, or so we thought in our innocence.'

By 1971, Thapar noted how Kapur's role had taken on a weird' shape. 'Yashpal Kapur, that oily cupbearer, was growing in stature by the minute and his corruption was becoming legend and his ability to get Indira to sign on the dotted line became the bazaar gossip,' she wrote. Thapar's bureaucrat husband Romesh, who early had been a trusted confidant of Indira, felt duty-bound to tell Indira. 'He sought an appointment, went to the office, gave her a run-down of what the average person was thinking, of how the PM's office now harboured a nest of corrupt people led by the favoured Yashpal. She was furious. "You know I would never touch a penny." "Maybe, but you are seen as the queen bee. The others do the collecting."'

Thapar went on:

> “…An unending string of stories were current about Yashpal's power, how he was sought by the high and mighty, how he was well in with Sanjay who was beginning, bit by nibbling bit, to tamper with the administration in his favour. Yashpal was of course no longer in the PM's office. His place had been taken by his nephew, R. K. Dhawan, who was rapidly to assume much vaster powers than his erstwhile uncle and together they were to manipulate patronage in this vast country.”

Dhirubhai not only cultivated Yashpal Kapur, says one old acquaintance, 'he practically purchased him'. In due course, the relationship passed on to R. K. Dhawan, who moved eventually from the prime minister's office under Indira and then Rajiv Gandhi into parliament and ministerial portfolios himself.

Over the years, Dhirubhai developed close ties with politicians in many parties. These included figures such as Atal Bihari Vajpayee, senior leader of the Hindu-nationalist Bharatiya Janata Party who became prime minister of a brief minority government in 1996, and several on the left such as Chandrashekhar, another short-term prime minister in 1990-91. But his strongest connections were always with the Gandhi 'coterie' within Congress, even though he never liked Indira's socialistic policy phase in 1969-70, and then later with P V Narasimha Rao who took over the Congress mainstream and prime ministership in 1991.

The links were not always based on money, however. Dhirubhai is widely acknowledged to be a masterful exponent of his own business visions, which have generally been more farsighted than those of almost anyone else among India's business leaders. He was quick to grasp that many Indian politicians, officials and bankers could be captivated by intellectual excitement or flattery at being in the inner circle of such an emerging tycoon. Should such individuals later show signs of self-interest or personal financial difficulty, Dhirubhai or one of his lieutenants would pick up the signals. A post-retirement job, a business opportunity for a child, indirect funding or a burst of inspired publicity might then follow for the person concerned.

Dhirubhai also played on the perception that he was an outsider and 'upstart' who deserved help to break through the glass ceilings of vested interest and privilege in the business community. That there was an inner circle in the 'Licence Raj'-the allocation by New Delhi of licences to set up factories and expand production capacity-was evidenced in 1967 with a report by a Bombay University economist, R. K. Hazare, to the Planning Commission which revealed that the Birla group of companies had received 20

per cent of the licensed industrial investment approved by the government between 1957 and 1966. The early support given by Ghansyam Das Birla to Mahatma Gandhi had certainly paid off in the independent India ruled by Congress. Writing in 1981 on Birla's 88th birthday, the journalist T N. Ninan noted that the Biria companies had multiplied from 20 in 1945 to about 150. 'If any industrial house benefitted from the licence-permit raj,' wrote Ninan, 'it was the house that Birla built.'

Birla's rapid expansion contrasted with the moderate growth of the Tata group, the Parsi-controlled empire that had grown strongly under British rule. The then head of Tata, J. R. D. Tata, told an interviewer: 'I think it wrong for a businessman to run newspapers [the Birlas had set up The Hindustan Times, the strongest paper in New Delhi], wrong for him to play a political role ... But it does seem that others who do not mind mixing politics with business have done extremely well for themselves.'

For G. D. Birla, his political connections and the ostentatious philanthropy that saw various Birla institutes and garish Hindu temples built around India were all supportive of his preordained role. As the Bhagavad Cita says, every man must do his duty, which means if you are a wealthy man, you must do your duty by your wealth,' the Birla patriarch reasoned. A businessman's karma [fate] is to amass wealth and his dharma [duty] is to provide for the general welfare. If political action is involved in this, I don't see why I should fight shy of it.'

One of Dhirubhai's earliest backers, the banker and politician T A. Pai, falls into the category of intellectual sympathiser. Pai came from an extraordinary upper-caste family based in the tiny village of Manipal on the Karnataka coast, far south of Bombay. It is still an out-of-the-way place, on a barren hilltop overlooking the sweep of palm trees and exposed beaches fronting the Arabian Sea. In 1925 the Pai family had established the Syndicate Bank there. By the mid-1960s it was the tenth largest Indian bank, with some 190 branches. As well as bankers, the Pais were educationists and used their wealth to found a college at Manipal in 1942. It has since grown into one of India's largest private universities, attracting fee-paying students from Malaysia, the Middle East and the West Indies.

The Pais prided themselves on being discoverers and nurturers of talent. A small museum at Manipal is devoted to the family patriarch T. M. A. Pai (older brother of T A. Pai) and his teachings. One cherished precept:'A pygmy nourished well can become a giant.',

According to K. K. Pai, a family member who eventually became general manager of the Syndicate Bank, Dhirubhai was introduced to TA. Pai in the mid- I 960s by a former bank employee named H. P Rao who was an insurance agent. The bank was interested in developing its foreign exchange activities, and began handling some transactions for the young spice and textile trader. 'Our first impression was that he was very enthusiastic, very enterprising, a man of ideas,' Pai said. 'From the beginning I had the impression he was a go-getter. He was very persuasive, very convincing in his arguments. He was able to present his case and business proposals very clearly. He gave me the impression he was reliable and knew what he was doing.'

The Syndicate Bank became the main financier for Reliance Textile Industries when it started manufacturing soon after, in 1966, providing much of the Rs 1,5 million needed to buy the first four knitting machines. Another early backer was the Industrial Credit and Investment Corporation of India (ICICI), whose chairman Harkisan Das Parekh, another Gujarati, also took a shine to Dhirubhai's big schemes.

Dhirubhai continued to impress the Pais by his insistence on the best equipment and personnel, as well as his knowledge of the market and its trends. He also made conspicuous donations to the educational institutes run by the family. Throughout the late 1960s, Dhirubhai kept in close touch with T A. Pai, making sure he was among the first to call whenever the bank chief visited Bombay from Manipal, and to give Pai advance notice of ' any major initiatives. Pai's nephew Ramdas Pai, who later became president of the Manipal Academy of Higher Education hers Dhirubhai coming to Bombay's airport in 1968 to g'reet him on his first trip back from studies in the United States. T A. Pai in turn promoted Reliance where he could, even to the point of carrying around samples of its Vimal-brand material in his brief- case to show others.

The bank continued to be the major lending institution for Reliance even after Indira Gandhi nationalised it and all India's other leading banks and insurance firms in July 1969. Although the Pais

were unhappy about losing their asset, family members like K. K. Pai continued to hold the top executive positions for many years. T A. Pai's policies of directing credit to small entre- preneurs, agriculturalists and business newcorners-which built up a portfolio of very small but sound loans for the bank-were exactly what Indira had hoped to achieve by the bank nationalisation generally

Ironically, the government takeover led to the steady bureaucratisation of management and lending directed by polit- ical connections rather than commercial viability. This destroyed the soundness of the Syndicate Bank and all the other 20 nationalised banks. By the end of the 1980s, the banks' nonper- forming assets or bad loans greatly exceeded their capital base by a wide margin, and but for endless capital infusions by the treasury almost all would have become insolvent. When private sector banking was again encouraged, after the 1991 liberalising reforms, the Pai family took over a small southern-based institution, the Lord Krishna Bank. If offered the chance to buy back the Syndicate Bank, family members said, they would refuse it.

Immediately after his bank was taken away, Indira consoled T A. Pai by drafting him to apply his ideas as the first chairman of the nationalised Life Insurance Corporation of India. Soon afterwards, he was inducted as a Congress member of the upper house of parliament (the Rajya Sabha or State's House) to enable him to become her government's minister of commerce, handling trade matters. Later in the 1970s, Pai became minister for industries, which gave him a decisive role in the allocation of industrial licences. He continued as minister during the suspension of democracy under Indira's declaration of Emergency between 1975 and early 1977. Pai died in 1981, having realised at the end-his relatives say-that his talents had been misused as a respectable cover by the corrupt circle around Indira and Sanjay. 'The enterprise of adventurers always sucks in plain, decent men,' commented the editor of the Indian Erpress, Arun Shourie, not long after his death. 'The number of times men like C. Subramaniam [another of Indira's ministers] and the late T A. Pai lied on Maruti [Sanjay's car project] far exceeded whatever Mrs Gandhi said about it . . .'

For Dhiirubhai, Pai's elevation meant that, as well as still having friends in a major bank, he now had a friend in a key position to approve import schemes and manufacturing plans.

In the early 1970s, the immediate pay-off was favourable changes in the import-export regime. Dhirubhai was not a law- breaker but had a creative attitude towards regulation. As one former colleague recalled: 'He would say: "You should not do anything illegal. First of all, the law should be changed."

'He would not go into anything which was unlawful,' agreed Sasmira's Kothary 'Everything he did was permitted to do by any other man. But his reading of the system! You have a law, the interpretation which you make - he would take advantage of a particular system in a way which others could not see. By the time other people started anything the government was also waking up and the system would be changed.'

The key to profits in the Indian synthetic textile business through the 1970s was access to supplies of the basic filaments and yarns. Influenced by Mahatma Gandhi's notions of self-reli- ance and the virtues of home-spun cotton, and by a strong lobby of cotton growers, New Delhi had discouraged use of synthetics, regarding them as a rich man's textile.

India already had a few factories making rayon (derived from cellulose material, usually wood, pulp) which had been developed in France in 1891, and the more modern artificial fibres derived from coal and petroleum including nylon (developed by Du Pont in 1935) and polyester (first produced in Britain in 1941 and later marketed under proprietary names like Dacron, Fortrel and Terylene).

But these domestic sources met only a fraction of the demand, particularly for polyester, as Indians began to appreciate its durability, lustre (in some forms), colour - fastness, and case of washing. As well as in pure polyester fabrics, the fibre was in demand for blending with cotton at both the large industrial mills and the widely dispersed power-loom workshops.

Former colleagues say Dhirubhai resisted any temptation to smuggle in supplies. 'Everyone knew smuggling was there, but Dhirubhai would not want to get involved,' one former Reliance manager said. 'Government support meant too much to him. We used to buy yarn that was obviously smuggled because

it was cheap. But we were told this should be kept separate. By the time it reached the manufacturers it would have gone through many hands. But people knew this was smuggled goods.'

Instead, over the 1960s Dhirubhai had steadily become master of the trade in replenishment licences, which were entitlements to import yarn earned by exporters of finished textiles and garments. After the war with China in 1962 and another with Pakistan in 1965, India's external balances were under strain and the government was ready to entertain more contrived schemes to boost export earnings.

Dhirubhai's coup was to persuade Pai in 1971 to authorise imports of polyester filament yarn (PFY) against exports of nylon fabric. Previously, nylon fabric exporters had earned some rights to replenish their stocks of nylon fibres through imports. Dhirubhai argued that if he could sell nylon or other manufactured textiles (known as 'art silks') at Rs 4.25 a yard, more than double the price stipulated in the old scheme, the exporter should be rewarded by permission to import PFY, which was in greater domestic shortage because local production was far below demand.

This resulted in what was called the Higher Unit Value Scheme, which made Dhirubhai a fortune while it lasted. At that time, the domestic price of PFY was seven or more times higher than the prevailing international price. Even if the nylon or polyester exports fetched only a quarter or one third of cost, this was more than offset by the 600 per cent or more profit on the PFY imports.

Reliance went into a high-profile export drive, targeting some of the weaker economies of the world. Poland was one focus, with fashion shows mounted in Warsaw and delegations of Polish trade officials lavishly hosted by Dhirubhai in Bombay. Another was Saudi Arabia, where Dhirubhai had another old Aden colleague from Besse & Co's Halal Shipping division, Bharat Kumar Shah, then working as a trader in Jeddah and acting as Reliance's Mid-East 'co-ordination manager'. Dhirubbai would take out full-page advertisements in The Times of India to announce special charter flights taking his export products to foreign markets.

But many senior figures in the textile industry still believe this export business was mostly bogus. 'If these goods were not saleable at two rupees, how could they sell at four rupees?', one remarked. According to this theory, Dhirubhai would have pro- vided his own export earnings, by sending the money out to the ostensible buyer overseas through the illegal foreign exchange channels known as havala (accepting the 20 per cent havala premium on the official exchange rate). The goods would be sent to a free port such as Singapore or Dubai, to avoid customs duty, and then he disposed of at giveaway prices, left to rot on the docks, or even dumped at sea. The effective outgoings would be the 20 per cent havala premium on the funds sent out, and the 60 per cent of the same funds actually spent on buying PFY overseas for import back into India. The returns would be this 60 per cent multiplied by seven or more. The profit would be 425 per cent of the outlay. And as long as Dhirubhai had the ‘export remittance' arriving back in his account in Bombay, he could claim credit for doing his bit for India's trade balance.

In an interview with the magazine Business India in April 1980, Dhirubhai said Reliance Commercial Corp accounted for more than 60 per cent of the exports made under the Higher Unit Value Scheme. 'The schemes were open to everyone,' he said. 'I cannot be blamed if my competitors were unenterprising or ignorant.'

Textile trade sources familiar with that era say this was not exactly the case. The adoption of the Higher Unit Value Scheme was not widely publicised in 197 1. Dhirubhai had a clear run of one or two years before other exporters began trying to take advantage of the same scheme, or putting up similar proposals for other categories of textile exports. One of these exporters, Bipin Kapadia, later recounted his experience to Bombay police who sought it as background to the sensational murder conspiracy case of 1989 (see Chapter 13).

Over two years in the early 1970s, Kapadia's family company Fancy Corp expanded its exports from Rs 2.5 million a year to Rs 15 million on the expectation of receiving import entitlements for PFY from the Commerce Ministry's Chief Controller of Imports and Exports. 'On one pretext or another' the authorities withheld the import licences over a 30 month period in 1972-74, causing Kapadia a huge loss.

Between 1971 and mid-1975, Kapadia made many trips to New Delhi to plead with officials. At his hotel, Kapadia told the police: 'I used to receive repeated calls on telephone offering me company of

women, threatening me of dire consequences, if I were not to leave the persuasion of my import licences.' During one such business trip, Kapadia was approached in the hotel parking lot at night by a knife-wielding man who called out to him. A friend pushed Kapadia out of the way, and the man ran off.

In 1974, when some other exporters managed to get PFY shipments coming through and the domestic premium began tumbling, Dhirubhai was blamed by his rivals for instigating a complaint to the Collector of Customs in Bombay, I. K. Gujral, that the others were either importing 'substandard' PFY or under-declaring the value to avoid taxes. Gujral seized all the suspect PFY shipments, but did not launch proceedings. It was not until a year later, after Gujral was replaced by an energetic Customs officer named J. Datta, that the Customs issued 'show- cause' notices to the importers asking them to reply to the complaints. In a one-day hearing on I July 1975, Datta listened to the importers and decided in their favour. The goods were released, but the PFY premium tumbled to about 100 per cent and all the importers suffered losses.

The High Unit Value Scheme continued as long as Indira Gandhi's government did. It enabled Dhirubhai to gain dominance over the supply of polyester yarn to India's highly decentralised textile weaving industry, where over 70 per cent of capacity is spread over thousands of small-scale power-loom workshops.

Dhirubhai became the major polyester importer in India, from the Italian company Ital Viscosa and the C. Itob group, Asahi Chemicals in Japan, where his hosts feted the Indian businessman on his buying trips. Later Reliance switched more of its sourcing to the American chemicals firm E. I. Du Pont de Nemours & Co (Du Pont), which had developed technology for a partially oriented yarn (POY, polyester filament not yet stretched after its extrusion to bring all its long polymer molecules into alignment or orientation along the length of the fibre) that had a longer useful life than the other companies' POY.

The former Du Pont agent Suresh Kothary recalls Dhirubhai overcoming Du Pont's reluctance to ship to India. They said India was not used to containerisation, they didn't want any claims. Dhirubhai said he would never claim. There were then no trucks to take containers from here to Ahmedabad, and the roads were bad. Somehow Dhirubhai did it.' The scale of Dhirubhai's imports grew. Around 1978, says Kothari, Dhirubhai heard that Dupont had idle capacity of 300 to 400 tonnes a month at its polyester plant in Germany. 'Dhirubhai booked it for six months,' Kothari said.

In addition, Reliance also built up to about 50 per cent share of the lucrative business of 'crimping', whereby polyester fibre is texturised by passing it through gear-like rollers to impart a waviness to the filament, or coiled to give stretch-attributes which make the yarn more opaque, lustrous and easier to dye. Industries Minister Pai overruled objections from his department to give Reliance the clearances to quadruple its texturising capacity in 1975.

Two anecdotes are told about Dhirubhai's confident, even brazen, approach to the muttered denigration of his success that inevitably sprang up. On one occasion, a rival yarn trader allegedly spread the rumour that Dhirubhai was going bust. He was indeed short of cash, but went to a public noticeboard in the yarn market and put up a sign inviting anyone he owed money to come and have their advances repaid. No one did.

Another story is attributed to D. N. Shroff, president of the Silk and Art Silk Mills Research Association in the 1970s. Market gossip accused Dhirubhai of black marketeering. Dhirubhai asked Shroff to convene a meeting of the association's executive committee, which included many of his critics, and then turned up to face it. 'You accuse me of black marketing,' he challenged, 'but which one of you has not slept with me?' All present had bought or sold yarn to Dhirubhai at some stage.

In March 1977, however, Indira and Congress were swept from power in the elections called after her two years' rule under Emergency powers was lifted. But her government gave Dhirubhai a parting gift. Over the 1976-77 fiscal year (April-March) Dhirubhai had accumulated REP licences both from its own exports and from purchases in the market, worth some Rs 30 million. On 7 February, about three weeks after the elections were announced, the government was persuaded to exempt all polyester yarn imports under REP licences issued since April 1976 from customs duty, which was then 125 per cent. It was a gift of Rs 37.5 million to Dhirubhai.

Indira's replacement was the Janata [People's] Government, a coalition of anti-Congress parties under Morarji Desai, the austere and self-righteous former finance minister Indira had driven from Congress because he had opposed her nationalisation policies in the late 1960s.

But, at least to begin with, Dhirubhai fared well under Janata, helped by the good offices of the prime minister's son, Kantilal Desai. On 22 August 1977, the janata minister for commerce, Mohan Dharia, abruptly cancelled the High Unit Value Scheme, and allowed any REP licence holder-not just exporters of nylon fabric-to import a specific quantity of polyester yarn.

The premium on licences for PFY crashed from 500 per cent to 50 per cent almost overnight. It was reported a year later by the Indian Express that Reliance stepped into the market to acquire licences at this low premium, and opened letters of credit for imports totalling Rs 50 million. Then, on 2 September, the Chief Controller of Imports and Exports (in the Commerce Ministry) announced another sudden switch of policy. To help 'bona fide users' of PFY secure their reasonable requirements, the linkage of exports of synthetic textiles with the import of PFY was restored with immediate effect. Registered exporters who had entered firm import contracts up to 2 September would be allowed to import directly. But henceforth all other importers would have to take their licences to the State Trading Corpora- tion, which would be the sole channel for imports of yarn.

It was not until March 1978 that the first supplies of yarn began reaching Indian markets through the STC. Over the six months till then, Reliance took delivery of all the PFY supplies for which it had contracted, and was able to squeeze a totally captive market. The 'Eleven Day Wonder' as the 22 August-2 September interval came to be called, seemed tailor-made for the benefit of Reliance.

Whether or not bogus exports were made under the High Unit Value Scheme by Dhirubhai has never been proven, and certainly Reliance did make genuine efforts to sell its own products overseas. Its export manager, Rathibhai Muchhala, became a familiar figure around the trade stores of the Gujarati diaspora in East Africa, the Mid-East, and later the United Kingdom, trying to place stocks of Vimal artificial silks. S. B. Khandelwal, the owner of the emporium Sari Mandir (Sari Temple) in the English city of Leicester where many Gujaratis settled after being expelled from East Africa, recalls a visit by Muchhala early in the 1970s. 'They were very anxious to get into export business,' Khandelwal said. 'I took 200 saris on credit. No money was expected upfront. Muchhala said: "Just say Shri Ganesh."' (Meaning: Just for luck.)

Up until around 1977, exports took between 60 per cent and 70 per cent of the fabrics produced at Naroda, Dhirubhai noted to BusinessIndia in 1980. That exports ceased to be a significant activity of Reliance soon afterwards indicates that they were propped up by the High Unit Value Scheme and the artificial shortages for PFY created by import controls.

The new environment encouraged Dhirubhai to step up his domestic promotion of Vimal and to expand his franchised exclusive shops to more than 600 by early 1980. Advertisements were plastered across newspapers and billboards. 'Only Vimal offers you exclusive innovations in high-fashion wear,' went one, listing products such as Disco Dazzle Sports Jersey or Supertex dress material.

It was a Rs 10 million a year advertising spend, then unprec- edented in India and more than four times that of established textile producers such as Bombay Dyeing. And it worked. In 1979, Reliance Textile Industries raised its sales to Rs 1.55 billion (then US$190 million), making it the largest textile producer in the country.

Dhirubhai had meanwhile decided to help bring an end to the Janata government of Morarji Desai. The government had not been particularly friendly to him, after the initial favourable turn in yarn import policy, and Kantilal Desai had become too controversial a figure to be much help. A judicial inquiry set up by Morarji Desai in reply to charges of influence peddling by relatives of ministers did indeed find, in February 1980, a 'prima-facie case for further inquiry' that Kantilal Desai had influenced the government to relax its policy on PFY imports in August 1977.

Dhirubhai put his resources behind Indira Gandhi's efforts to split the janata coalition, which focused on the ambition of the finance minister, Charan Singh, who had a huge powerbase among the prosperous Jat caste of farmers in Uttar Pradesh. Dhirubhai's role was to provide the suitcases of cash

needed to induce MPs to take the risk of leaving the government benches and joining the splinter group. In July 1979 the Desai government fell when Charan Singh's supporters withdrew support in parliament. Charan Singh, pledged support by Indira's Congress, was invited to form a government and demonstrate his support within a month. A vote of confidence was never taken: Indira demanded as a condition that Charan Singh agree to withdraw legislation setting up special courts to try herself and Sanjay for alleged crimes committed during the Emergency. This he was unable to do. In August, the President dissolved parliament and called elections for the first week of January 1980, with Charan Singh as caretaker prime minister.

Suresh Kothary, the Du Pont agent in Bombay, was in close contact with Dhirubhai over this period. 'He used to tell me what was going to happen, and it always did,' Kothary said. 'I asked him once: "How do you know, are you an astrologer?' He laughed and said: "Yes."'

With inflation raging as a result of two years of drought, Indira surged back to power. The first big party staged to welcome her back in government was hosted by Congress MPs from Guiarat, and paid for by Dhirubhai, at the Asoka Hotel in New Delhi. Political observers took note that Indira spent over two hours sitting on the dais receiving weliwishers with Dhirubhai at her side.

Kothary remembers that several times during his turbulent climb to prosperity and influence, Dhirubhai would remark: 'Everything that I have done has been kept in the ground, and a first-class fountain has been built over it. Nobody will ever know what I have done.'

GURU OF THE EQUITY CULT

Indira Gandhi's return to power opened a golden period for Dhirubhai Ambani. In 1979, his company barely made it to the list of India's 50 biggest companies, measured by annual sales, profits or assets. By 1984, Reliance was in the largest five. Dhirubhai himself had become one of the most talked and written about persons in India, gaining a personal following more like that of a sports or entertainment star than a businessman. It was also the period when Dhirubhai made the most rapid part of his transition, in the bitter words of a senior non-Congress politician in 1996, 'from supplicant-the most abject kind of supplicant-to influencer and then to controller of Indian politics'.

Although it was not immediately obvious, Indira's three years in political exile had reinforced a change in her thinking about state intervention in the economy. In large part due to the influence of her son Sanjay, who was to die in 1980 when the light aircraft he was plioting crashed during some acrobatics over New Delhi, she was less trustful of bureaucratic direction, and more inclined to give the private sector its head.

Indian business leaders were also calling for a drastic relaxation of the licence controls on capacity expansion and diversification vested in the Monopolies and Restrictive Trade Practices Commission. One was the head of the extensive Tata group, J. R. D. Tata, who along with others in the 1940s had willingly laid their heads on the block of state planning. By 1981, Tata was calling on New Delhi to 'unfetter' the big business houses. The intellectual tide had turned in favour of economic liberalisation, though it would not be until a decade later that anything more than tentative policy change was attempted.

In Indira's case, the disillusionment on the economic side was matched by a deeper cynicism in politics. Her second spell as prime minister was marked by callous manipulations such as the sponsorship of Sikh extremists in the Punjab, and by unapologetic extraction of political funds from businessmen expecting clearances from New Delhi.

Dhirubhai's cultivation of Indira and other Congress figures during the Janata period certainly paid off.

In October 1980, Reliance received one of three licences given by the government for manufacture of polyester filament yarn, with the location stipulated as the 'backward' area of Patalganga in the hills of Maharashtra inland from Bombay. In a field of 43 contestants for the licences, Reliance beat many larger and longer-established business houses including Birla. Its licensed capacity of 10 000 tonnes a year was by far the largest (Orkay Silk Mills and J K Synthetics were each cleared for 6000 tonnes a year), and at the time close to India's entire existing polyester fibre output.

Together with the Du Pont representative Suresh Kothary, Dhirubbai and his eldest son Mukesh had already been to the headquarters of Du Pont at Wilmington, Delaware, and persuaded the American chemicals giant to sell its technology, including a polymerisation process not previously transferred outside the United States.

The deal arranged through a New York-based firm called Chemtex Inc saw Reliance make a US$26.7 million order for its first PFY plant. Making polyester is a highly complicated chem- ical process, involving the reaction of one petrochemical intermediate-cither purified terephthalic acid (PTA) or dimethyl terephthalate (DMT)-with another, monoethylene glycol (MEG), in processes involving heat and then vacuum, using various catalysts along the way. The resulting polymer, a long molecule, is pumped in a molten state through fine nozzles to produce the filament. It was Dhirubhai's first step in a process of 'backward' or 'upstream' integration that was to bring him many plaudits, and a step into the petrochemicals industry where the scale of business is vastly bigger than in textiles.

As well as an always-open connection to the prime minister's office, he now had a close and sympathetic friend as minister of commerce, the Bengali politician Pranab Mukherjee. His ministry not only helped set trade policy, including tariff levels and anti-dumping duties, in conjunction with the Ministry of Finance, but conducted the system of import licences through the powerful office of the Chief Controller of Imports and Exports-whose corridors in New Delhi's Udyog Bbavan were thronged with importunate businessmen and their agents.

At the beginning of 1982 Mukherjee became minister of finance, giving him charge of broad economic policy as well as the details of revenue raising and tax enforcement. The Ministry of Finance also supervised the Reserve Bank of India, the central bank, whose governor is often a recently retired head of the ministry. Through its banking division the ministry also effectively directed the 26 nationalised banks through highly politicised board and senior management appointments. It supervised the insurance companies and other financial institutions such as the Unit Trust of India, and controlled entry to the sharemarkets by Indian companies.

Under a series of secretaries that included Manmohan Singh (later finance minister in the 1990s), R. N. Malhotra, M. Narasimhan and S. Venkitaramanan, the Ministry of Finance engineered a revitalisation of India's capital markets in the early 1980s. The key administrator of this sector was another Bengali, the energetic career bureaucrat Nitish Sen Gupta, who became the ministry's Controller of Capital Issues and Joint Secretary (Investment) on 24 December 1979, just before the return of Indira.

Like his ministry head, Manmohan Singh, Sen Gupta had earlier been a diligent builder of the 'Licence Raj'. He had been deputy secretary in the Department of Company Affairs from March 1968, just as government policy was changing from what he has called 'benign aloofness' to 'massive intervention in corporate business', most notably in the nationalisation of major Indian banks the following year.

In 1969, Sen Gupta had helped in the abolition of the managing agency' system, whereby families such as the Tatas wielded control over affiliated companies with very little equity, and in preparing the Monopolies and Restrictive Trade Practices Act 1969 which intensified the industrial licensing regime first introduced in 1951. Other measures which followed included the 'convertibility clause', whereby the governmment's financial institutions (development banks and insurance companies) were given the option to convert a proportion of long-term loans to companies into equity, and the Foreign Exchange Regulation Act 1973 which sharply restricted the freedom of Indians to hold foreign currency or assets.

On his arrival at the Ministry of Finance in 1979, Sen Gupta had already begun the transition in thinking that led him to write in his 1995 memoir, Inside the Steel Frame:

The possession of vast unregulated power in the hands of the ministers and the bureaucrats inevitably led to complaints of extortion, inducement and enormous politicisation of the machinery From 1970 supreme power was appropriated by the Cabinet Committee on Economic Co-ordination which was headed by the prime minister and for all practical purposes the prime minister's office became the main decision-making authority. No worthwhile project could be cleared without the prime minister's approval. Those who managed to get industrial licences also managed to see to it that others did not. This was done by money, influence and political muscle power. A nexus came to be established between a section of industrialists, a section of politicians and a section of bureaucrats. The principle of market forces guiding or dictating investment, or of production targets being determined by demand and supply, was given the go-by, and everything was decided by administrative fiat.

Sen Gupta's job was to set the rules by which companies could raise money by issuing shares or bonds, and then to adjudicate the prices they could charge for these offerings.

But up to 1979, India's capital markets were quiet places. Stock exchanges had arrived in the major cities as part and parcel of the British capitalism imported in the 1880s. The exchanges were run by cliques of brokers, who set their own rules of trading and rarely punished one of their own brethren for abuse of clients' trust. After periodic busts, the general public had learned to distrust the sharemarket. With only very small percentages of equity traded actively, the managements of listed companies were concerned more with dividend levels than with share prices. The bigger companies went to banks for their finance rather than to the market. Between 1949 and 1979, the average annual total of money raised by, Indian companies from capital markets was only Rs 580 million (US$71 million at 1979 exchange rates) and the highest in any year Rs 920 million.

By the end of 1983, the amount being raised had jumped to Rs 10 billion a year, with Reliance playing a prominent part. According to his memoir, Sen Gupta had taken up a study by an Indian economist with the World Bank, D. C. Rao, who was then on assignment with the Reserve Bank of India. Rao suggested greater use of convertible debentures paper which for a certain period had the character of bonds, earning interest, but which then were converted to shares earning dividends. For investors this

meant earnings while the company or project was gestating, with the prospect of equity once it was a going concern. For companies, it offered a way to slash debt after the start-up and also to avoid going for loans from financial institutions, who might elect to convert part of the debt to equity and become major shareholders.

Again, Dhirubhai was primed and ready for the new policy. As Reliance expanded its production in the early 1970s, he had begun looking at taking it public in order to raise capital. In 1973, Dhirubhai and members of the Pai family had floated a company named Mynylon Ltd in Karnataka (the Pai family's home state). The intentions remain obscure, for Mynylon's paid- up capital was only Rs I 1 000. In July 1975, Dhirubbai took consent of the Karnataka and Bombay High Courts, and carried out an amalgamation whereby the tiny Mynylon took over the assets and liabilities of Reliance, which by that time had assets of some Rs 60 million.

By March 1977, the company had been relocated from Ban- galore back to Bombay and its name changed back to Reliance Textile Industries. For a period that roughly coincided with the Emergency-when T A. Pai was a powerful minister-Reliance did not formally exist in name. The manoeuvre later became a widely used case study in tax minimisation.

In October 1977, Reliance had gone public, with a public offer of 2.8 million equity shares of Rs 10 each at par, taken from the holdings of Dhirubhai and his younger brother Nathubhai. With its shareholding thus broadened to meet listing requirements, Reliance was listed on the stock exchanges in Bombay and Ahmedabad in January 1978.

Thereafter Reliance expanded its equity base through frequent rights and bonus issues to shareholders, while financial institu- tions converted 20 per cent of their loans into equity in Septem- ber 1979. But it was through the use of convertible debentures that Dhirubhai made his big splash in the capital markets. Indeed, Dhirubhai had anticipated Sen Gupta's policy with the Series I issue of partially convertible debentures by Reliance in October 1979, raising Rs 70 million.

Reliance was not alone in trying the long disused instrument promoted by Sen Gupta. The Tata group's automotive firm Telco raised Rs 230 million with a fully convertible issue in 1980, followed by the Gujarat Narmada Fertiliser Corp with a Rs 430 million issue. But from late 1980 the issues of partially convertible debentures came from Reliance in quick succession, raising Rs 108 million in September from its Series 11 and Rs 240 million from its Series 111 the next year, and Rs 500 n-tillion from Series IV in April 1982.

Dhirubhai capped that by obtaining from Sen Gupta clearance to do what should normally be legally impossible: converting the non-convertible portions of the four debenture issues into equity.

By this method, dubbed a 'brilliant and unconventional move' by the magazine ‘The Economic Scene’ in a September 1984 cover story on Dhirubhai-Reliance was able to chop Rs 735 million off its debt book in 1983, and turn it into comparatively modest equity of Rs 103 million, while reserves were raised by Rs 632 million. Instead of an annual interest bill of Rs 96.5 million on debentures, the dividend burden from the extra equity was only around Rs 36 infflion. This transmutation allowed Reliance to continue raising more quasi-debt, with its E Series of partially convertible debentures in October 1984 which raised another Rs 800 million.

Sen Gupta denies that he was unduly permissive to Reliance, or that he ever received any benefits from Dhirubhai such as share allotments. 'On my first encounter with him I had to say no,' Sen Gupta recalled. With the third series of debentures, Dhirubhai had put in a request that the holders be entitled to renounce rights attached to their implicit share entitlements. Sen Gupta insisted that the debentures were not shares until converted.

But Reliance was highly persuasive. On another occasion, Sen Gupta rejected the premium that Reliance was seeking to put on an issue, on the ground that projected profitability had not been indicated. Without a pro-forma balance sheet for the current year-an extension of results to date-it could not be accepted.

It was 1 pm that day; Sen Gupta was due to fly that evening to Bombay for a meeting of his seven-member committee on capital issues the next morning. Obviously it would be impossible to have the paperwork ready for this meeting. He told Reliance.

Coming out of the arrivals hall of Bombay Airport at 7 prn, Sen Gupta was met by accountants from Reliance, and handed a copy of the pro-forma balance sheet and results for each of the seven committee members. 'I had no option but to take up the matter at our meeting,' Sen Gupta said. .

By the end of 1986, Dhirubhai was to raise an unprecedented Rs 9.4 billion from the public over eight years, including Rs 5 billion from one debenture issue alone. 'In fact this one company, Reliance,' wrote Sen Gupta, 'made significant contributions to the growth of the debenture market in the country through its successive issues of convertible debentures, a new experiment in running a big business undertaking entirely on the resources drawn from the public at large without being backed by any multinational, large industrial houses, or without taking term- loans from financial institutions on a significant scale.

It was not entirely true that Dhirubhai did not tap the banks, as we shall see, but his heyday in the capital markets did coincide with the rise of what Indian business magazines came to call the, ‘equity cult'- and Dhirubhai can rightly claim some of the credit for it.

Between 1980 and 1985, the number of Indians owning shares increased from less than one million to four million. Among those, the number of shareholders in Reliance rose to more than one million by the end of 1985. It was by far the widest shareholder base of any Indian company - and, until the privatisation of major utilities like British Telecom or Nippon Telephone & Telegraph, probably in the world. It was evidence of a popular following that made many politicians, especially in Guiarat where Dhirubhai had earned local hero status-think twice before denying him anything.

Sen Gupta put the sharemarket craze down to the entry of three 'non-traditional' classes of investors. One was the Indian middle class, who had forgotten about their misadventure in the stockmarket in the Second World War. Another was the expatriate Indian communities, prospering rapidly in Britain, North America and Southeast Asia after their miserable expulsion from East Africa in the 1960s, and augmented by direct migrants qualifying for professional and skilled entry to advanced economics. Since Pranab Mukherjee's 1982 budget, these 'non-resident Indians' or NRIs and their companies had been able to invest directly into Indian equities. The third class was the larger landowning farmers, prosperous after the huge crop-yield increases of the Green Revolution during the 1960s and 1970s, who continued to enjoy tax exemption on their income.

The equity cult spread from nearly 20 major exchanges. The premier bourse was the century-old Bombay Stock Exchange located in Dalal Street, one of the teeming narrow streets of the city's Old Fort district where brokers, businessmen, accountants and lawyers crammed into tiny offices in old stone buildings with the remnants of charming wooden and wrought-iron balconies.

Although surmounted by a 28-storey office tower of cement, steel and glass, the trading floor in the podium operated until the mid-1990s much as it had done in the 19th century. Some computer monitors flickered on the periphery but no one expected them to keep up with the frenetic trading done by brawling, shouting, gesticulating 'jobbers' in blue jackets, or with the thriving after-hours kerb market where shares were traded informally.

The paperwork was also miles behind the action. Share transactions were recorded on scraps of paper at brokers' offices, but transfers were not necessarily lodged with company registrars immediately. Settlements came every second Friday, causing a slowdown in trading and sometimes pandemonium when defaults were found. But brokers and traders need not settle even then, if they could afford the upfront margin payments and sometimes exorbitant interest rates on finance for a badia (carry-forward) deal.

Using this prototype futures system, settlement could be deferred for months, often amplifying speculative runs in prices. On occasion, a scrip would pass through 50 buy and sell transactions before being lodged for transfer of ownership. If the signature of the original seller did not pass muster,

professional forgers operating in the side lanes of Dalal Street would guarantee an authentic-looking copy.

It was an environment where research was just another word for insider trading, where the key knowledge was finding out which stocks were going to be ramped upwards or driven down by cartels of moneybag brokers and operators.

Though it had thousands of listed companies and a nominal capitalisation similar to that of middle-sized stock markets like Hong Kong or Australia, the Indian sharemarket was not very liquid. Huge blocks of equity in the better companies were locked up by investment institutions or controlling families. Many of the smaller companies hardly traded at all. The 'floating' equity in the major companies forming the market indices amounted to a few billion US dollars. Even in the 1990s, a concerted move with a relatively small amount of funds, upwards of US$50 million, could make the market jump or crash.

Investors outside Bombay who could not hang around Dalal Street, browse the issue documents sold off barrows or pavements, or listen to the gossip while snacking on a bhel puri (potato-filled puff-bread) from a nearby stall, had to rely on a network of sub-brokers and agents reporting to the fully-fledged stockbrokers in the big towns. They scanned a new crop of market tipsheets with names like Financial Wizard and Rupee Gains for news of their stocks. In some small towns, investors impatient with their remoteness took trading into their own hands: teachers, shopkeepers and other local professionals would gather after work in public halls to conduct their own trading, settling on the basis of prices in newspapers from the city.

It was a situation made for a populist like Dhirubhai. His ebullience and punctilious nursing of relationships were transferred to a larger stage, using the mass communications techniques learned in marketing the Vimal brand name.

'The people of Reliance,' began one typical promotion, on the cover of an annual report. 'Therein lies our strength. In the skills of the scientists, the technologists. In the commitment of the engineers, the employees. In the dedication of the brokers, the traders and, above all, in the undisputed loyalty of the investors. These, the people of Reliance. In their growth lies our growth. In their prosperity, our prosperity. For we are a family. We are all one. We are ... Reliance.'

In those years, Dhirubhai and Reliance had a success story to tell. On the technical side, the polyester plant at Patalganga was put up in a fast 18 months, and put into regular production in November 1982. Construction and the debugging of production lines had been supervised by Mukesh Ambani, who had been pulled out of Stanford University immediately on completing his master of business administration degree, and put in charge of the new project. Aged 24 at the outset, with a degree in chemical engineering, Mukesh Ambani won his spurs as an industrial manager at Patalganga.

Reliance made sure that a comment by Du Pont's then international director, Richard Chinman, that such a plant would have taken 26 months to build in the United States, had wide publicity in India. 'Reliance Textile Industries, now the fourth largest private sector company in the country, continues to burn up the track with its blistering growth record', said the magazine India Today in February 1983. 'Close on the heels of the commissioning of its polyester filament yarn plant at Patalganga in Maharashtra, the company has set its sights on still bigger projects.'

Dhirubhai still demonstrated his uncanny grip on government trade and industrial policy, and their implementation. While the kanalisation' of imports through the State Trading Corp had been abandoned in April 1981, and polyester filament yarn (PFY) and partially-oriented yarn (POY) placed on the 'open general list' of imports, the right to import the yarn was still confined to so-called actual users. The Customs House in Bombay took the line that these did not include large cotton textile mills - despite the growing demand for cotton-polyester blends-but only the small 'art silk' power-looms. Reliance had already organised power-looms as outsources, giving them polyester yarn and taking back their 'grey' cloth for finishing and dyeing at Naroda,

On 23 November 1982, three weeks after Patalganga went into production, the government put an additional Rs 15 000 a tonne duty on PFY and POY imports, allowing Reliance to raise its prices and still force India's small yarn crimpers and power- looms to buy its products.

The policy switch had been telegraphed early in November by a submission made to New Delhi by the Association of Synthetic Fibre Industry that dumping of PFY and POY by foreign producers under the open general licence channel was causing a curtailment of local production and pile-up of inventories, leading to heavy losses.

The All-India Crimpers' Association, representing about 150 small processors who texturised PFY and POY into fibre ready for weaving and knitting, took out a series of anguished newspaper advertisements headlined: 'Should the country's texturising industry be allowed to die?' The crimpers said the case for anti-dumping duty was 'misleading, distorted and untruthful'. Domestic polyester output had risen 60 per cent in 1981 to 16000 tonnes, and still fell short of demand estimated at 50000 tonnes a year. The rush into PFY production by new producers scarcely pointed to a glutted market.

Existing customs duties worked out to a total 650 per cent on landed costs for importers, topped by further excise duty and sales tax on the processed product. Texturised polyester yarn had become more lucrative for smugglers than the traditional gold, wristwatches and electronics-and huge consignments had recently been intercepted, usually misdeclared as some other low-duty goods. Instead a case existed for an immediate duty cut and freedom for anyone to import.

The pleas were ignored. 'The government has finally declared a deaf car to our cry of anguish,' said the Crimpers' Association in an advertisement on 7 December. By its calculation, the effective duty on PFY and POY had risen to 750 per cent with the addition of the Rs 15 000 a tonne anti-dumping levy.

The Reliance plant at Patalganga immediately exceeded its licensed capacity and produced some 17600 tonnes of polyester yarn in 1983, its first full year, thereby doubling India's total output. The extra duty in effect added Rs 240 million to Reliance's revenue. In late 1984, Finance Minister Pranab Mukherjee announced a new policy to 'endorse' higher than licensed capacity on the part of industry, and consequently in late 1985 Reliance received an effective retrospective licensing of its capacity to 25 125 tonnes a year.

Along with the clearances for his capital issues, Dhirubhai also had an easy time from the revenue side of the Finance Ministry. At no stage did Reliance ever pay corporate income tax on its profits, or even feel the need to make more than token provision for it. Constant expansion and heavy borrowing gave ever increasing cost deductions to offset against profits. Reliance became the most famous of India's 'zero-tax' companies.

In his budget for 1983-84, Mukherjee made one of the government's periodic efforts to crack down on such companies, by introducing an amendment to the income tax law requiring companies to pay 30 per cent of profits in tax after depreciation but before other deductions. Reliance avoided this by capitalising future interest payable on borrowings for its new projects, hugely increasing its asset value in one hit and allowing greatly increased depreciation claims to deduct from profits. Reliance remained a zero-tax company for nearly three decades after its listing. It was only in 1996-97, after the introduction of a 12 per cent 'minimum alternate tax' on company profits, that it made its first corporate income tax provision.

The collectors of indirect taxes were also friendly. While Reliance could not avoid the heavy domestic excise duties levied on manufactures at the factory gate, it was initially given considerable leeway in setting aside some production as 'wastage' not incurring excise. Bombay Customs accepted a 20 per cent to 23 per cent 'bulk buyer's' discount given to Reliance by Japan's Asahi Chemicals up to 1982, and a 7 per cent discount on its purified terephtbalic acid imports thereafter, whereas in other cases they might have inquired about under-invoicing.

Many officials in charge of customs and excise were drawn into the Reliance family, rather than adopting the attitude of arms-length enforcers. The journalist Kanti Bhatt recalls attending the marriage of Dhirubhai's daughter Dipti in 1983, when he joined the marriage procession, which in the Hindu tradition follows the groom to the venue, with the guests occasionally breaking into the twirling dance known as dandya raas. 'I found myself in the street playing dandiya raas with the Finance Ministry's chief enforcement officer,' Bhatt said.

For his investors, all this added up to greater profits at Reliance, which multiplied from Rs 82.1 million in 1979 to Rs 713.4 million in 1985 (8.69 times), on sales that rose from Rs 1.55 billion to Rs 7.11 billion (4.58 times) over the same years. The company was never India's most profitable, either in absolute terms or in terms of profit as a return on capital, net worth or turnover. But for the times, Dhirubhai was unusually generous with dividends, giving investors a return of at least 25 per cent on the face value of their shares from the time Reliance was listed.

But it was in the appreciation of their shares that the early investors in Reliance were rewarded. In its first year of listing, 1978, Reliance had reached a high of Rs 50, five times the par value of the share, which was a high premium in those times. In 1980 it hit Rs 104 as Dhirubhai promoted the growth potential of the company's expansion plans at Naroda and Patalganga, and in 1982 it reached a high of Rs 186.

In that year Dhirubhai established his name among brokers and investors as a master of the stockmarket. From the middle of March 1982, a cartel of bear operators reputed to be based in Calcutta started driving down his and other stocks in the Bombay market. The selling pressure was intense on 18 March, creating a half-hour of panic just before the close. The bears sold 350000 Reliance shares, causing the price to fall quickly from Rs 131 to Rs 121, before Dhirubhai got his brokers to start buying any Reliance shares on offer. The more they sold, the number got to 1.1 million shares, the more Dhirubhai picked up, ostensibly on behalf of non-resident Indian (NRI) investors 'based in West Asian countries'. Eventually, the friendly brokers bought over 800000 of the shares sold by the bears.

It was an almighty poker game. The bears had sold short-in other words, they had sold shares they did not own in the expectation that the price would fall and let them pick up enough shares later at a lower price. Reliance itself could not legally buy its own shares. So who were the NRI investors who arrived so providently on the scene with more than Rs 100 million (then over US$10 million) to spend?

Six weeks later, after several further spells of bear hammering of Reliance shares, Dhirubhai called his opponents' cards. Every second Friday, the Bombay Stock Exchange stopped new transactions while its members settled the previous fortnight's trades or arranged badla finance to carry them over. On Friday 30 April, Dhirubhai's brokers used their right under the badla system to demand delivery of the shares they had bought for their offshore clients, failing which a badla charge of Rs 25 a share would be levied. The bear cartel baulked, throwing the exchange into a crisis that shut it down until the following Wednesday. In following days the price of Reliance shares rose to a peak of Rs 201 as the bear brokers desperately located shares to fulfil their sales, incurring massive losses.

By 10 May, the Reliance price started easing, signifying that deliveries had been made. But Dhirubhai and his company had clearly arrived. Reliance was henceforth treated by major news-papers as a 'pivotal' stock in the market, and Dhirubhai himself began receiving panegyrics in magazine profiles as the 'messiah' of the small investor. Dhirubhai went on to pick up a further one million Reliance shares by August 1982 for the mysterious NRIS, bringing the outlay since March to about Rs 260 million.

A few years later, in December 1986 at the time of its massive C Series debenture issue, Reliance advertised that Rs 1000 invested in Reliance shares in 1977 would have 'bought an investment worth Rs 1,10,041 in November 1986, an appreciation of 11,000 per cent. Another calculation made by Reliance put the gain at 12,234 per cent.

An analysis by S. R. Mohnot in his Reliance study, points out that to obtain the value quoted in 1986, the investor would have had to top up his initial Rs 1000 outlay by subscribing to every rights issue and debenture issue offered to him, taking the total investment to nearly Rs 30000 for assets and accumulated earnings (interest and dividends) worth Rs 1,08,278. This was far from thousands of percentage points, but still equivalent to an annual compound rate of interest of 44.5 per cent. Tellingly, however, Mohnot noted that, had the investor bailed out at the end of 1983 after five years, the annual compounded return would have been a still more impressive 75 per cent.

By late 1984, Dhirubhai had reached a new plateau of acclamation, and thereafter frequently featured on the covers of Indian magazines. Over the next year, he announced plans for a massive expansion of Reliance, by moving further back along the raw petrochemical chain to become India's first

producer of purified terephthalic acid (PTA), to make the other main input to polyester, monoethylene glycol (MEC), and to make the associated products linear alkyline benzene (LAB, for use in biodegradable detergents) and high-density polyethylene, a plastic. Patalganga would also be expanded via a 45000 tonne a year plant to make polyester staple fibre (PSF, fibres of a set or staple length, which are spun together to produce a less shiny yarn than the long filainents in PFY).

Ever bigger debenture issues were announced-Series E raising Rs 800 million in October 1984 and Series F in June 1985 raising Rs 2.7 billion-and were fully or over subscribed.

Probably the pinnacle of Dhirubhai's popularity was reached on 20 May 1985, when Reliance hired Bombay's Cooperage Football Grounds as the venue for the annual general meeting to approve results for 1984. About 12000 shareholders turned up to sit under canvas awnings stretched above the grass and to watch the directors via television monitors. It was reported as the first AGM ever held in the open, and the largest ever meeting of shareholders, attracting note just for that fact the next day in The Financial Times of London.

Dhirubbai arrived in a suit, but soon got down to shirtsleeves to report the previous year's 58.6 per cent jump in net profit and to list various new projects totalling Rs 6.72 billion in outlays. India had recently had its first taste of hostile takeover bids when the London-based expatriate Indian, Swraj Paul, had bought into the machinery manufacturers DCM and Escorts. If anyone tried that with Reliance, they would have to deal with 1.2 million loyal shareholders, said Dhirubhai to loud applause.

The shareholders enthusiastically approved a name change symbolising Dhirubhai's wider ambitions. The word 'Textile' was dropped from the company's name. After approval by company regulators in June, it was simply Reliance Industries Ltd.

Accolades followed in the press. The magazine Bombay said Dhirubhai appeared at the meeting like a 'dark and dapper messiah'. BusinessIndia spoke of his 'brilliant financial acrobatics' and 'superlative business performance' which had helped him create corporate history' and become a 'le nd in his own ge lifetime'. A man whom childhood poverty had deprived of ade- quate clothes to wear, has today become the biggest clothier of the nation,' the cover story said. It might even be divinely destined, the magazine noted. In the early 1960s, the 'society astrologer' Pandit Sundaram in New Delhi told Ambani he would be India's No. I industrialist.

'Not so long ago, Dhirajlal Hirachand Ambani, popularly known as Dhirubhai Ambani, was sneered at as an upstart, condemned as a manipulator par excellence and written off as a flash in the pan,' said Business India.

> Within the space of seven short years, Ambani has proved all his critics wrong. Today he is revered by his 12 lakh investors (the largest number for any company) and envied by every industrialist. His methods have become the gospel for the new generation of aspiring industrialists. Ambani, an ordinary high school dropout from Chorwad, in Junagadh district, Gujarat, is seen as the most outstanding practitioner of a new style of management in which the only thing that matters is-results.

Some more considered analysts also saw Dhirubhai as a natural winner. 'What Dhirubhai has touched so far has turned to gold,' wrote authors Margaret Herdeck and Gita Piramal. 'Yesterday, synthetic textiles. Today, petrochemicals. Tomorrow is only in the mind's eye. One thing is certain. If Dhirubhai gets involved it will be big . . . In Ambani, there is no hesitation between thought and action. They appear to be one and the same.'

Even the friendliest writers felt compelled to mention that Dhirubhai had many critics and enemies who called him an arch-manipulator of politicians and bureaucrats. 'It is not for nothing that this dark horse from Guiarat has achieved the reputation in textile circles of being the best friend and the worst enemy one could have,' said Business India. In most cases, these criticisms were put in a way that gave Dhirubhai the chance for a free kick. 'Ideas are no one's monopoly,' he was quoted as saying by Herdeck and Piramal. 'Those who criticise me and Reliance's growth are slaves to tradition.' If not to outright conservatism and complacency, the criticisms were put down to jealousy.

But two of India's sharpest business journalists did get Dhirubhai to admit that stroking government was his biggest task. 'The most important external environment is the Govern- ment of India,' he told India Today's T N. Ninan and Jagannath Dubashi. 'You have to sell your ideas to the government. Selling the idea is the most important thing, and for that I'd meet anybody in the government. I am willing to salaam anyone. One thing you won't find in me and that is ego.'

But the criticisms were brushed aside by most investors, it seemed, as well as by many of the journalists. The 'dark' side of Dhirubhai was part of his attraction. It was a thumb in the nose at the bureaucrats, the corrupt politicians, and the exploitative business elite cornering the wealth of India and wasting it.

For the Gujaratis who formed much of the business and professional class of Bombay-but few of the big industrial entrepreneurs-Dhirubhai was one of them. He had taken on and beaten the Parsis, the Marwaris and the Punjabis at their own game. Called 'Gujjus' and often sneered at by other Indian communities for their parsimonious, apparently money-obsessed ways, the Gujaratis had 'made it' through Dhirubhai.

If he had bent the rules, engineered loopholes, cleverly avoided tax or given bribes, Dhirubhai was only doing what any other industrialist would do, given the opportunity or the ability to carry it out. How else would a complete newcomer with no capital or education get the breaks? A leading management consultant, S. K. Bhattacharya, was quoted as saying: 'The dis- tinction between Reliance and others is that it creates the future for itself rather than waste time on sobbing over government controls and insensitivity of government policies.' It was a frequently made observation.

The only victims, it seemed, were the government, which did not get as much tax revenue out of Reliance as perhaps it should, or the bureaucrats, who could not get their vindictive pleasure out of blocking or crippling a private sector endeavour. After centuries of rule by alien governments, many Indians-especially the traders and farmers-had come to regard anything sarkari (governmental) as trouble. By the 1980s, the government of independent India was similarly suspect in places like Bombay and Ahmedabad.

In rural India, outlaws like the 'Bandit Queen' Phoolan Devi or the southern sandalwood smuggler Vecrapan attained celebrity status, and evaded capture for years (Phoolan Devi even getting elected to parliament in 1996, despite pending charges of taking part in a massacre of 20 men). In the popular Hindi cinema, the lines between good and evil had become confused. Police and politicians were aligned with gangsters, the hero had become a khalnayak, a villain or anti-hero.

Dhirubbai worked in an expensive office in Bombay's Nari- man Point business district. He drove around town in a Cadillac (augmented with a gold-coloured Mercedes by 1985). He took helicopters out to Patalganga and new sites in Gujarat (even using the Maharashtra state governor's helipad in Bombay for a while), and as the years went on was in touch with the highest in the land. But he still looked and felt an outsider. 'Dhirubhai never moved around with the social crowd like the Wadias, the Godrejs, the Singhanias,' said one senior Bombay journalist. 'He was not considered in the same league-you know how snooty they can be. He would go to the Harbour Bar [at the Taj Mahal Hotel], have a drink, watch everybody, then leave.'

The sense of exclusion may have been what drove him onwards. It also lent an edge to his public image, turning him, too, into an anti-hero. Those who followed Dhirubhai in the stockmarket were not just part of the Reliance family but mem- bers of an unspoken rebellion.

Friends in the right Places

This was the public face of Dhirubhai Ambani. Known to a small circle of insiders was a different face. Shadowing the industrial and marketingactivity, the published financial workings of Reliance was a second operation-the systematic manipulation of share price, publicity and government policies in order to sustain the Reliance success story and keep the public money coming in. Every company attempts to some degree to improve these elements of its operating environment. Few have ever matched Reliance in its sustained efforts.

By being able to quickly transform debt into equity, Dhirubhai seemed to have avoided the borrowing trap that eventually caught up with so many other stars of the global sharernarket boom in the 1980s. By expanding only into associated products, he created enormous internal economies for Reliance.

But it was still a balancing act that required a lot of forward momentum, and constant oiling of the machinery. It was generally agreed that Reliance's high share price was the single biggest factor in the case it enjoyed in raising finance. Reliance shares were promoted relentlessly as a path to rapidly appreciating wealth. Dhirubhai was free with allocations to friends and clients from the directors' quotas of any issues, though these share parcels usually come with the stipulation not to sell for two years'.'

The business chronicler Gita Piramal also noted how central was the share price:

> Arnbani realised that in order to seduce the public into investing in his schemes, he had to offer them something above and beyond what they were already used to getting. And this was the steady appreciation of their sharcholding ... At the time, Ambani didn't realise that he had mounted a treadmill from which he would never be able to step off. Over the next few years, this treadmill sped ever faster, constantly threatening to whirl out of control. In order to retain the public's support, Dhirubhai had to ensure that the price of Reliance shares kept appreciating, month after month, year after year. As long as he kept moving, money poured in.2

In theory, that need not have been the case. Had the funds raised by Reliance been promptly deployed in productive invest- ment, Reliance would have been able to rest on its laurels from time to time. But after the fast completion of the PFY plant in 1982 and the PSF plant in March 1986 at Patalganga, the company's investment targets constantly slipped. It faced political obstacles in front of new sources of funds.

And in any case, Dhirubhai needed a constant, substantial stream of income to cover his political payments, top up the official salaries of his executives with cash (company law then put limits on salaries), and keep various benefits flowing to his network of contacts. To some extent, this could be generated by market play in the management sharcholding, spread between scores of investment and trading companies.

This meant that Dhirubhai really was on a spiral he could not get off.
Not that he wanted to. His daily activity was a constant adrenalin rush, in which he continually proved his mastery of India's markets in yarn, textiles, petrochemicals, shares and finally money itself.

In the process, Reliance became a 'pure cash flow operation', according to a stockbroker who worked closely with Dhirubhai. 'They do not distinguish between revenue and capital,' the broker said. 'They only operate on a cash flow.'

Assisting Dhirubhai juggle money between Reliance, associated private companies, banks and the markets were a close band of trusted staff. Some were family. Foremost was his nephew, Rasikbhai Meswani, who knew all the ins and outs of Dhirubhai's private accounts, including his contributions to politicians and parties, journalists and others. Others were old acquaintances from Aden or Saurashtra, like senior managers Indubhai Seth and brother Manubhai Seth, or Chandrawadan ('Mama') Choksi.

The company secretary of Reliance, Vinod Ambani (no rela- tion), was in most cases the common link to the growing number of shelf companies which often had their registered office, but not necessarily a nameplate, in the same address as one or other of the Reliance offices around Bombay orahmedabad, and whose activities were put down as 'trading and investment'. For example,

Hemal Holding & Trading Pvt Ltd had as directors the old Reliance Commercial Corp stalwarts Narottambhai Doshi and Manubhai Sheth, as well as Vinod Ambani. Victor Investments & Trading Pvt Ltd was controlled by members of the Meswani family. Jagadanand Investment & Trading had Choksi and one Bhanuchandra Patel as directors. Many of these companies were subsidiaries of a company called Mac Investment Ltd, incorporated in September 1974 and with its registered office in the Syndicate Bank headquarters in Manipal. Dhirubhai and his extended family, plus in-laws and old friends like Rathibhal Muchhala, were included in Mac Investment's top shareholders in an annual return at the end of 1983.

The story is told that Vinod Ambani or some other executive once came to Dhirubhai to get some guidance on what to name the host of new companies'being spawned. Dhirubhai told him to get out an ancient Sanskrit scripture called 'Vishnu Sabasra Nam' (The 1000 Names of Lord Vishnu). Many of the investment companies unearthed during later scandals did indeed bear the names of divine avatars.

If the nerve centre was the Reliance corporate headquarters in Maker Chambers IV, Nariman Point, or wherever else Dhirubhai happened to be, the essential plumbing was at the share registry and transfer agency for Reliance, handling the ownership details and paperwork of the company's shareholders, some 1.2 million by the end of 1986. The registry was often described as 'in-house' but was in fact a separate company, Reliance Consultancy Services Ltd, which had several hundred staff of its own working in a large building in Bombay's distant industrial suburb of Andheri.

Dhirubhai met few objections to his accountancy from his auditors, in particular the firm of Chaturvedi & Shah, which has cleared Reliance's books from the earliest days. One partner, D. N. Chaturvedi, spent a lot of his working time in the Reliance head office year round. The other name in the partnership is a son of a Reliance director until the early 1990s, Jayantilal R. Shah.

When Reliance went through difficult patches, one device to tide over poor profitability was to change the accounting year. Thus in 1978 when the removal of the High Unit Value Scheme forced a switch to the domestic market just as Reliance was going public, the company changed from an October-September year to a January-December year, even though it had moved from a July-june year only two years earlier. In a later time of troubles, 1987 and 1988, Reliance changed its accounting period in two successive years-making for four changes in 15 years, before settling on the April-March year used by most Indian companies.

One way to move the market is by weight of money. The best way, of course, is to use someone else's money. While Dhirubhai can rightly claim to be a father of India's equity cult, another important guru was Manohar J. Pherwani, chairman of the Unit Trust of India for nearly ten years until November 1989. Though it was set up by an act of parliament as far back as 1964, the UTI had been quiescent until Pherwani's arrival. Originally from Sindh (now in Pakistan), Pherwani was a desperately ambitious man, eager to make his mark, and willing to step outside the orthodox to raise subscriptions to UTI funds: for example, by sending mobile offices around middle-class neighbourhoods and prosperous rural areas to sign up new investors at their homes. During his chairmanship the UTI's investable funds rose from Rs 4.6 billion (in 1979-80) to Rs 176.5 billion (in 1989-90). Nitish Sen Gupta quotes J. R. D. Tata as remarking at a seminar in Bombay that 'the capital market that N. K. Sengupta did so much to create has become a pocket borough of the UTI chairman, M. J. Pherwani.'3

Dhirubhai and Pherwani became close, and their success fed off each other's: Reliance's rising share price meant rising values of UTI units; UTI's heavy investment in Reliance helped Dhirubhai keep the price going up.

Dhirubhai did have some funds himself. Reliance's cash reserves could be lent to the associated investment companies to buy shares, or deposited in banks as informal additional security against loans to those investment companies to buy shares and debentures.

But more often, the market was moved by information or sentiment, and these funds used to take a profit.

Until 1993 when the newly empowered Securities and Exchange Board of India applied new rules, India had no explicit law against insider trading, though companies were forbidden by company law from buying their own shares. It was accepted as normal, however, for companies to see that their share prices

were boosted by friendly brokers and underwriters ahead of issues, and often for sensitive information to reach some investors ahead of the public. Sharemarket research was not so much concerned with intelligence about a company's performance as about which particular stock was being targeted for concerted price ramping and by whom. But Dhirubhai's year-round inter- vention in Reliance's share price was, and remains, highly unusual.

To categorise Dhirubhai as an inside trader, however, does not do justice to the scope of his activities. His willingness to 'salaam' anyone and his cultivation of junior staff and newcomers had by the early 1980s created a huge network of friends in politics, government ministries and financial circles. Earlier, goodwill had been cemented by gifts of the famous 'suit-lengths' of material. After the float of Reliance in 1977, Dhirubhai was able to allocate parcels of shares or debentures from the 'promoter's quota' of any issue, with a profit virtually guaranteed by the gap between issue and market prices or by the prospect of conversion.

Again, Dhirubhai was not unique in cultivating officials. Many companies had their friends in the bureaucracy. Businessmen liked to get close to power, and the officials looked to post-retirement jobs or opportunities for their children. But, as always with Dhirubhai, it was the degree. His 'moles' were not just in the ministries of direct relevance to Reliance-Finance, Industries, Commerce, Textiles, Petrolcurn-but in others like the Prime Minister's Office and Home Affairs where the general powers of the government were wielded.

It meant that a signature was barely on a document or file in the Ministry of Finance, for example, before Dhirubhai was informed. The inside trading was not just in the affairs of Reliance Industries Ltd, but in the affairs of the Government of India.

The intervention went beyond information-gathering, to the point of influencing or even controlling key bureaucratic appoint- ments, and thereby influencing policy or its interpretation. In many parts of India, government jobs have long been allocated by auction, the highest prices being fetched by those in revenue raising and policing agencies where the opportunities for corruption are greater. In what is regarded as the most debilitated state administration, that of Bihar, the auction is conducted more or less openly in a cafe in the main street of the capital Patna. In New Delhi, police promotions and transfers are brokered by a well-known city journalist.

In Bombay, the competition was intense among the handful of senior bureaucrats with financial sector experience for the chairmanships and chief executive positions of the government financial institutions. Dhirubhai was active in the lobbying when the top posts fell vacant in the banks, insurance companies and statutory authorities. And as one old acquaintance noted, Dhirubhai would make a point of telephoning all candidates and assuring each one of his support. Even if it were not really decisive, the winner might be left thinking he owed his new job to Dhirubhai's backing.

Dhirubhai's most distinctive touch, however, was in his use of the press. Before him, G. D. Birla may have been equally master of the Licence Raj, and keen to buy public and perhaps divine favour by the building of temples and colleges, but Birla disliked the press and never cared to mix with journalists --- even though his family owned ne Hindustan Times, one of India's strongest English-language newspapers.

Centuries of shielding their wealth from over-extended maha- rajas and nawahs, or from a hungry populace, had made India's merchants wary of ostentation and careful not to be seen to be overstepping their place in the social hierarchy. In more recent times, the Licence Raj had unleashed packs of inspectors against private wealth, and businessmen had learned to be lectured by politicians and officials about the superiority of economic planning and directed investment.

Dhirubhai shared a certain contempt for the journalist. 'Throw some scraps to the street-dogs and crows before you feed yourself,' a family friend remembers him enjoining his sons Mukesh and Anil in the early days at Bhuleshwar. But he recognised how powerful the press could be in moulding the thinking of the public and the politicians.

The huge advertising spend of Reliance gave him an automatic hold over many of the less established newspapers and magazines. By the early 1980s, the new technology of computerised compo-

sition and photo-typesetting had led to an explosion of publishing in India, particularly in regional languages where it overcame the technical problems of complex scripts in an economical way. Gujarat was no exception to this. Advertising from Reliance was an important source of revenue for the Gujarati publications in Gujarat itself, Bombay and overseas.

Dhirubhai used his clout. The Gujarati columnist Kanti Bhatt remembers being called upon for help by a newspaper editor who had offended Reliance by printing a hostile paragraph, apparently fed by a rival Marwari-owned company. Reliance had immediately cancelled all advertisements.

When he met Dhirubhai, Bhatt remembers him being furious, even throwing a telephone at one point. 'Mr Ambani called in his advertising manager and said: "Show me our advertising plans." Then he said to him: "Take out this particular newspaper." it meant a loss of Rs 600 000 a year for that newspaper.' After this charade, Bhatt went back to the editor and told him the message was that nothing could be written against Reliance if he wanted the ads. 'The next issue was damage control, and a very long and favourable article was written,' Bhatt said. Advertising was restored.

Later Bhatt was called in by Dhirubhai himself to find out why a Gujarati publication in Britain had suddenly begun printing a series of articles critical of Reliance. After talking to the publisher, Bhatt reported back: 1Sir, it is a plea for advertising.' The plea was answered, and the articles stopped. 'You could multiply these examples by a million,' Bhatt said.

Dhirubhai could not wield the same power over the big metropolitan newspapers. But he could and did cultivate their journalists and editors. The Indian press tends to be like most of the other key institutions in the country: free, but in many parts corrupt except at the very top.

Bombay's underpaid financial journalists are used to receiving gifts from businessmen wanting publicity, and their proprietors are happy to have their salary bill subsidised in this way. Press conferences are followed by buffet meals and drinks, and envelopes containing cash or gift vouchers are handed out by public relations officers on the way out. The envelope system has flourished most intensely during bull runs on the stock exchange when new company floats and issues have come thick and fast, and even a paragraph in a big English-language newspaper means recognition for a new company promoter.

In Paris, waiters are known to pay the proprietors of certain fashionable restaurants for the privilege of being able to wait at the tables and collect tips. In Bombay, some would-be business correspondents are willing to eschew salary altogether and even offer a monthly fee to the newspaper in return for being accred- ited as its reporter.

Reliance was a pioneer of envelope journalism. A senior commercial journalist in Bombay recalls that journalists would get vouchers worth up to Rs 2000 for goods at a Vimal retail outlet called Laffans. Some in senior positions would get regular monthly payments, or issues of Reliance shares and debentures at par. Ambani's moles in the press were known as the "Dirty Dozen"," the journalist said. 'The point man was Rasikbhai Meswani. He was a thorough gentleman. His door was open 24 hours a day for journalists. People would go to collect on first of the month.'

Dhirubhai also realised that the reporter was not the final arbiter of what got published. He also cultivated desk editors and even editors. One who accepted Reliance debentures for himself, and help in arranging bank finance to pay for them, was Girilal Jain, editor of The Times of India for much of the 1980s.

The close journalists in the 'Dirty Dozen' would not only be used to get favourable news about Reliance printed prominently They also became an extension of Dhirubhai's intelligence net- work, asking rival businessmen for their frank views 'off the record' about Reliance and then reporting them back. On the theory that rumour and gossip are more keenly heeded because they carry an aura of exclusivity, the pressmen would be used to plant opinions about the merits of Reliance activities and the failings of other companies.

Occasionally the journalistic network would turn up details of illegal or embarrassing activities by rivals that could be used to obtain peace, or failing that, turned over to authorities for punitive action or harassing investigation.

Many of the journalists regarded by their colleagues as being in the Reliance pocket would indignantly deny being bought. Indeed, some would have simply fallen for the perennial trap of getting too close to a source that had given them many good stories-and then having too much friendship or ego involved to admit any negative news. And especially for the news magazines that were the liveliest and fastest-growing section of the Indian media in the 1980s-the last decade before privately owned television arrived with satellite broadcasts-Dhirubhai and Reli- ance were a colourful and fresh story

It was a highly effective image-making operation. But, perhaps inevitably, some accidental slips allowed the public glimpses of Dhirubhai's secret manoeuvres.

The opening developed in 1983 when Finance Minister Pranab Mukharjee began giving some details in parliament to the response by non-resident Indians to the new sharemarket invest- ment rules he had announced in his first budget, in February 1982. Previously, NRIs had been allowed to make portfolio investments in Indian shares but were not allowed to repatriate their funds. The new system allowed NRIS, or companies and trusts owned at least 60 per cent by NRIS, to put money directly into Indian shares and to repatriate funds after selling their shares. It was implemented by the Reserve Bank of India in April that year-just as Dhirubhai was marshalling his response to the bear attack on his share price.

In a written answer, tabled on 10 May 1983, Mukharjee said that between April 1982 and April 1983, 11 overseas Indians had purchased shares and debentures worth a total Rs 225.2 million (then about US$22.5 million) in two Indian companies. It was widely believed that the two companies were Escorts and DCM, targets of the raider Swraj Paul. On 16 May 1983, however, the Calcutta-based Business Standard reported that in fact all the investments had been made in one company, Reliance, by investment companies overseas. 'It is believed that all these investment companies belong to Mr Dhirubhai Ambani himself, the promoter of Reliance Textiles.'

Answering questions from the leftwing opposition figure Prof. Madhu Dandavate on 26 July, Mukherjec listed the 11 companies allowed to invest in Reliance, all of which he said were companies registered in the United Kingdom. Among the conventional names, two of the 11 stuck out for their cheekiness: Crocodile Investments and Fiasco Investments. The investments in Reliance accounted for 98 per cent of all investments made by NRIs under the new scheme-suggesting to critics that here was yet another policy tailor-made for Dhirubhai.

The tantalising clues were taken up by The Telegraph, a stable- mate of Business Standard in Calcutta's Ananda Bazar Patrika group, a hometown press that had little time for Mukharjee even though he was a Bengali. On 16 Septe-mber, the- Telegraph's reporters found that the companies named did not exist. Two months later, on 16 November, the Telegraph found that eight of the 11 named companies had appeared in the UK registry-but that the applications to register had not been lodged until 27 July 1983, the day after Mukherjee's reply in the Indian Parlia- ment. All were made through one channel, on the instructions of a single client.

On 22 Noven-vber, just as the parliament was about to rise for a week, Mukharjee tabled a correction to his 26 July reply. the companies were actually registered in the Isle of Man-the small island community in the Irish Sea. Mukharjee could have said he was technically right: the island is a British protectorate and part of the United Kingdom. But like the Channel Islands between Britain and France, it has its own tax laws and derives much of its income from providing tax shelters for foreigners. Mukharjee corrected some other minor mistakes in the company names also: it was Crocodile Ltd and Fiasco Overseas Ltd.

Editorials asked how closely the central bank had scrutinised the eligibility of the 11 companies under the NRI scheme, if the finance minister could not even get their domicile right. 'Pranab Mukharjee: Minister of Finance or Reliance?' went the headline in the Telegravh's leader. Facing more questions in parliament and an attempted breach of privilege motion (rejected by the Congress majority) on 14 December, Mukharjee insisted the different place of incorporation 'did not make any material difference' about eligibility and appealed to MPs not to 'kill the scheme'. The RBI had seen certified statements about the majority shareholders, but their identities could not be revealed on grounds of banker- client confidentiality. If 'black money' was being laundered through the NRI scheme, there were other laws to take care of it.

The press soon followed up the Isle of Man clue. In January 1984, India Today and other publications revealed that company searches showed the 1 1 companies had been registered between 1979 and July 1982, initially with various English names as directors. In July 1982, the ownership and directors had changed: suddenly 60 per cent to 80 per cent of the share capital in each company belonged to people with Indian names, mostly with the surname Shah. In 10 of the 1 1 companies, common directors were two accountants domiciled in the Channel Island of Sark, Trevor Donnelly and his son John Donnelly, both well-known 'facilitators' believed to hold thousands of directorships in hold- ing companies in various tax havens around the world.

In eight of the companies, the biggest shareholders were found to be one Krishna Shah, a resident of the English midlands city of Leicester, and his wife, three sons and a daughter-in-law. In five companies, a couple called Praful and Nalini Shah, living in Flushing, New York, were directors. Four companies had one or other of two residents of Djibouti, Chimanlal and Jyoti Dhamani, on their board. Only in one company, Tricot Investments, were Indian names not on the board.

A mystified India Today reported that Krishna Shah was a former Leicester city councillor, born in Kenya, who had come to Britain in 1959 and initially worked as a train guard with British Rail, before opening his own shop and then setting up a small knitwear factory which employed only five people. Shah told the magazine's reporter he knew nothing about any companies in the Isle of Man.

Someone in the companies was remarkably well informed on investment conditions in India, however. On 20 August 1982, the RBI had lifted a Rs 1 00 000 ceiling on share investments in any one company by non-resident Indians. Three days later, three of the Isle of Man companies applied to the central bank to invest Rs 20 million each in Reliance. Four other companies applied together on 24 September. Six companies made their share purchases on the same day, 15 October, at the same share price, which was a significant discount to the then market price.

While each company had paid-up capital of only £200, three of them had managed to talk the European Asian Bank to lend identical sums of US$1.65 million to each, through the bank's branch in Colombo, Sri Lanka, on 26 October 1982. M three bought Reliance shares at the same price, Rs 128.4 It was a sound piece of investigation, but no link with Dhirubhai had been found and many questions remained unanswered.

Had the reporters spread their questions wider in the Gujarati diaspora, they might have discovered a very old connection. The leading name in Crocodile, Fiasco et al. was the same Kirishna Kant Shah and fellow student activist whom Dhirubhai had helped spring from jail after the 1947 communal riot in Junagadh (see pp. 13-14). ,After finishing his education, Shah had gone back to join the family business in Kenya. In 1964 he moved to Britain on his own, working for an engineering company for two years and then as a railway guard for eight years. In 1970 he quit British Rail and set up his own shop in Leicester's Hartingdon Road, selling hardware, saris, utensils and religious statues, and living in a flat upstairs.

His customer base was the fellow Gujaratis then congregating in Leicester after their expulsion from Uganda by Idi Amin at 48 hours notice in 1972, and the more gradual squeeze out of Kenya by Jomo Kenyatta's Africanisation' of commerce. By the mid- 1 990s, about one-quarter of the city's 400 000 population were immigrants, about 80 000 of them South Asian. Almost all the 65 000 Hindus were Gujarati.

Shah was not very interested in making money from his fellow migrants. Instead he sought their votes. In 1973 he got himself elected to the Leicester City Council, becoming the first South Asian on a city council in Britain, and served for ten years. 'He was not a great businessman,' recalls S. B. Khandelwal, proprietor of the Sari Mandir emporium in the city. 'He would often close up shop early to go on council business.'

Clearly, Shah did not have millions of dollars to put into Reliance shares, or the financial knowledge to set up elaborate ownership arrangements through the Isle of Man, where he had never been, or to take out loans from a foreign bank in Sri Lanka to finance the purchase of shares in India through an Isle of Man company.

He had however kept in touch with Dhirubhai, and his wife Induben had become a friend of Dhirubhai's wife Kokilaben. On trips to buy textile machinery in Britain, Dhirubhai would take Shah along, while Shah introduced Reliance's export manager Rathibhal Muchhala to many of the South Asian retailers in Leicester. In 1972, Dhirubhai brought his wife and children to Britain for a holiday and the two families spent some time together Later that year Shah's oldest son Sailash, who had just completed a diploma in textile manufacturing, went off to a job at the Reliance factory in Naroda, where he stayed five years before returning to Leicester to help his father set up the new knitwear business. In 1977, Dhirubhai provided two cars for Sailash's wedding.

Krishna Kant Shah died in 1986, in the midst of a fresh controversy about the mysterious Isle of Man companies. At a meeting in 1995, Sailash Shah maintained there had been no business connection between his father and Dhirubhai. Asked how it was that the Indian press and investigators had singled out his family as Dhirubhai's fronts, he would say only. 'I don’t know how.'

That Dhirubhai did have a connection with the Isle of Man was indicated by the appearance in India during the mid-1990s of one Peter Henwood. An accountant running a company in the Isle of Man capital, Douglas, called International Trust Corp (later OCRA Ltd), Henwood had been instrumental during the 1980s in arranging layers of ownership for Dhirubhai's offshore holdings through several tax havens. Dhirubhai had become close to Henwood and his attractive wife, on whom he showered expensive gifts.

Much later, Henwood tried to market his services to other Indian businessmen. Dhirubhai became alarmed, and had Hen- wood followed on his visits to India. To protect his business interests, Henwood consulted a leading firm of lawyers in India.

Over the years 1982 to 1984, Dhirubhai also met problems within the 'Reliance family'. In 1982, junior office staff in Bornbay petitioned the Reliance management about low salaries and being obliged to work long hours and on holidays without overtime pay. Then they attempted to join a trade union, the Mumbai Mazdoor Sabha run by R. J. Mchta. Some 350 were dismissed without notice, ostensibly on grounds of a 'reorganisa- tion', while others were transferred to Reliance offices in Gujarat. The dismissed workers said muscle men had beaten up one activist and a deputy personnel manager had waved a pistol at a typist.

In December 1983, Dhirubhai had hosted a special lunch for all his 12 000 factory staff at Naroda to celebrate the wedding of his daughter Dipti to Dattaraj Salgaocar, the heir to a prosperous iron ore mine in Goa. It was a love match-Raj Salgaocar had been staying in the same apartment building in Boinbay's Altarnount Road as the Ambanis when he met Dipti-but a prestigious one for Dhirubhai, just as he had emerged as a tycoon himself.

The bonhomie at the wedding covered some mixed feelings on the factory floor. The Naroda workforce was seething. Within a few months, the textile hands were agitating for a wage increase, payment of overtime, and removal of contract labour. Dhirubhai effectively nudged aside his elder brother Ramnikbhai from management of Naroda, and put his younger son Anil in charge. In August 1984, the company suspended 160 of its workers, and announced formation of a company union, the Reliance Parivar Pratinidhi Sabha (Reliance Family Representative Union), includ- ing 6700 workers and 1800 staff. 'The concept of unions has no place in our set up,' the company's general manager for personnel and administration, H. N. Arora, told a newspaper. 'We believe in participative management.'

Agitation continued within the plant. On the morning of 28 August, the company announced suddenly that work was stop- ping, and the plant was closed. Squads of Gujarat state police and police reserves waiting at the gate stormed in and charged the protesters with lathis (long wooden staves) and tear gas.5

Dhirubhai rode out this episode, but with regret. Not only had he lost the earlier affinity with his factory workforce, but arguments between Ramnikbhai Arnbani and Anil had induced Dhirubhai's elder brother to distance himself from the company's operations.6

The blazing success as Dhirubhai proceeded to his triumphant general meeting in May 1985 carried some dark shadows. Many of those who opposed him had been crushed in ruthless displays of the state power he could manipulate: the police lathis and tear gas that fell on his own workers, the tariff

changes and tax raids that hit his business rivals, or the ignominious transfers given to civil servants who held up his plans.

The opposition parties had been alerted to his connections with the ruling Congress Party and Indira Gandhi's office. The very resistance met by any query about Reliance only encouraged politicians like Janata's Madhu Dandavate, the Marxists' Somnath Chatterjee or the Bharatiya Janata Party's Jaswant Singh to press harder. Dhirubhai had a growing list of critics, and enemies to feed them questions. It only required a sudden removal of his high-level protection for his complex fast-growth operation to be dangerously exposed.

The Great Polyster War

On 23 November 1985, Bombay's sensation-seeking weekly tabloid Blitz came out with a cover story that soon had more than the usual crowds browsing at the newsstands.

'BIG 3 IN MAHAPOLYESTER WAR,' shouted the front-page headline.

'It's a Mahabharata War, or rather, Mahapolyester War-in Indian big business style,' began a lengthy report that took up the whole of the front page, and spilled into two full inside pages.

'There are only Kauravas, no Pandavas, and no Lord Krishna. The reason is that none is without blemish. The fight is neither for inheriting the earth nor the heaven, but for one of the most lucrative industrial markets-that is, polyester filament yarn, where profits soar around Rs 80 to Rs 100 per kg.'

Not only that. Blitz told readers in a front-page subheading: 'The Mahapolyester War goes beyond the industry to apocryphal stories involving serious political repercussions. According to New Delhi's grapevine, the old Pranab-Dhawan-Ambani axis responsible for Reliance's booming fortunes is currently reorganising its scattered forces with V P Singh, the Finance Minister, as its principal target.'

Pictured as contestants in this dark war without heroes were Dhirubhai, along with two competing textile magnates: Kapal Mehra of Orkay Silk Mills and Nusli Wadia of Bombay Dyeing. Among these Kauravas fighting each other, Reliance (Dhirubhai Arnbani) and Orkay (Kapal Mehra) are the principal combatants, with Bombay Dyeing (Nusli Wadia) on the sidelines. Thanks to Reliance and its vast patronage and money power, Orkay got the wrong end of the sword, with the result that the patriarch of the family spent Diwali in jail after five attempts to ball him out had failed.'

Blitz's editor, Russy Karanjia, was right that a corporate war was about to spill over into politics. But his article was wrong about the main battle. Kapal Mehra had just spent 15 days in jail over the festival of lights (Diwali) marking the new year in the Hindu calendar. He was facing massive penalties on charges of evading excise and customs duty. Earlier, his son had been abducted near Orkay's Patalganga factory, beaten up and dumped in a drainage ditch some n-dles away. Mehra was already knocked out of the combat.

In the bigger fight just warming up, Nusli Wadia was Dhirubhai's opposing gladiator. And while Wadia was bleeding, Dhirubhai was on the back foot. After his accolades at the Reliance shareholders' meeting in the Cooperage Football Grounds in May and the oversubscription of the Rs 2.7 billion F series of debentures in June, things had started to go badly wrong for him in the second half of 1985.

But Blitz was correct in painting this fight over a mundane textile and its chemical inputs with the colours of an epic. It went on for years, reached to the highest levels of politics, dragged in some of India's best talents, sullied some of them and made heroes of others, and caused governments to fall. Far from being a tabloid beat-up, the Great Polyester War was central to Indian politics, for critical years in the 1980s-to the point where one former minister in the central government could state, with only a little exaggeration, that 'The course of Indian politics is decided by the price of DMT [dimethyl terephtbalate]'.'

According to stories put out by Reliance sympathisers over the years, the war began with a snub.

Back in the late 1960s and early 1970s, the social gap between Dhirubhai and Nusli Wadia could not have been much wider for two people in the same industry Dhirubhai was a paan (betel nut) chewing trader roaming from client to client in Pydhonic to sell his polyester and nylon yarns, flashy in personal tastes, and with a small-town Gujarati social background.

In Bombay, Nusli Wadia was Establishment. The Wadia family were Parsi, followers of the ancient Zoroastrian religion in Persia who had fled to the west coast of India in the 10th centuryAD to escape forcible conversion to Islam. In the 18th century, the Wadlas had become shipbuilders to the East India Company in Surat, constructing the famous company sailing ships known as 'Indiamen' which carried cargoes of calico, silk, tea, indigo and opium in their capacious holds, and rows of cannon in gun ports along their sides to fight off pirates or force their way into China's ports.

When British commerce shifted to Bombay, the Wadlas fol- lowed and joined India's first wave of modern industrialisation. In 1879, they set up Bombay Dyeing &- Manufacturing Co, which moved from

dyeing of cotton yarn into spinning the yarn and then into weaving of cotton textiles. Under Nusli Wadia's father, Neville Wadia, chairman between 1952 and 1977, the company continued to modernise, and became one of India's largest textile manufacturers and exporters.

Like many Parsi families, they adopted English ways in speech, dress and social behaviour. Although their agiaries (fire-temples) and towers of silence (grounds for open-air burial) were forbidden to others, the Parsis have long been a cosmopolitan element in Bombay and intermarriage with members of other Indian com- munities or foreigners was common. Nevillie Wadia had married the daughter of Moharnmad Ali Jinnah, leader of the Muslim League in pre-independence India. Before 1947, Jinnah's family lived in a big house on Bombay's Malabar Hill, though Jinnah was to move to the newly created Pakistan of his dreams after the Partition, dying there within a month of its creation.

Nusli Wadia had been born with all the advantages, and had been educated at schools in Britain. Like his father, Nusli held British citizenship and travelled widely. As Dhirubhai was begin- ning his climb up from the yarn market, Nusli had just returned to join the family business. He was in his mid-twenties-some 12 years younger than Dhirubhai-handsome in an acquiline way, dressed in quiet but classic English fashion, and always cuttingly direct in his impeccable English. He moved around in a foreign sedan between the family's waterfront mansion and the company's turn-of-the-century stone office building, Neville House, in the grandly laid out old business district of Bombay, Ballard Estate.

The Parsis, like many colonial clites, went through a crisis of self-esteem when the colonial power went home without them. Their own self-image became one of failure, eccentricity and emasculation. The younger Wadia was the great exception. He was anything but inclined to relax and live off inherited wealth. In 1971, his father wanted to sell off the company to the Calcutta-based Marwari tycoon Rama Prasad Goenka and retire abroad. Nusli Wadia, then 26, enlisted the support of the Tata patriarch J. R. D. Tata to help in a shareholders' battle against the sale, and rallied 700 employees in an offer of a staff buy-out of some shares. His father dropped the sale, and after handing the company over to Nusli in 1977 settled in Switzerland.

It was the first of many battles in which Nusli Wadia showed his remarkable fighting capacity when he felt his own vital interests, or those of friends who sought his help, under threat. Wadia was never inclined to take a public stage. He did not join business associations and appear constantly at conferences and seminars like many other big businessmen, or host lavish parties in hotels. He avoided the press. But he developed a wide circle of friends and contacts who came to appreciate his fearless advice. Among them were tycoons many years his senior, like Tata and later the press baron Ramnath Goenka of the Indian llipress.

The Ambani version of the snub is that Wadia simply refused to buy C. Itoh yarn from Dhirubhai, for reasons that are not explained. Another variation is that Wadia kept Dhirubhai cool- ing his heels in the corridors of Bombay Dyeing.

A more elaborate version is that Dhirubhai called on Wadia at Neville House during the early 1970s, and made a presentation about the superior quality of his C. Itoh yarn. Wadia questioned the backing for this claim, whereupon Dhirubhai pulled out a copy of a test report made by Bombay Dyeing's own laboratory for internal company use. Wadia, according to this version, told Dhirubhai that next he would find Reliance telling his laboratory what to report, and that he would not deal with him.2

Dhirubbai has not mentioned this incident, and Wadia has told inquirers he has no memory of it or any other such encounter with Dhirubhai, though he could not completely exclude it as a possibility. Matever the case, Dhirubhai clearly felt put down and, according to many later articles by friendly writers, nursed the hope that one day he would have Wadia coming to him as a supplicant.

The industrial rivalry developed after Wadia took over from his father at Bombay Dyeing and started moves to get the old cotton inill directly into the polyester production chain itself. In 1978, Bombay Dyeing applied to New Delhi for a licence to set up a DMT plant, and in December that year it received a 'letter of intent' (a preliminary approval) for a 60 000 tonne a year DMT plant to be located at Patalganga.

It was a move that would have leapfrogged Bombay Dyeing past Reliance up the petrochemical chain. At the time, Dhirubhai was just moving towards applying for a licence to make polyester yarn, using

DMT as his initial feedstock. Bombay Dyeing would have become one of only three domestic sources of the chemical, along with Indian Petrochemicals Ltd near Bombay and the Bongaigaon refinery in the eastern state of Assarn.

Wadia would have been in a position to apply Dhirubhai's own trick of calling down higher tariff protection and then squeezing a bigger profit out of dependent clients-who would include the new Reliance plant.

Though he was not close to the prime minister, Morarji Desai, Nusli Wadia had a good image with the janata government, partly through connections in the Hindu nationalist party in the ruling coalition, the Jana Sangh, predecessor of the Bharatiya Janata Party. The Scindia family, one of the great Maratha ruling families and hereditary maharajas of Gwalior in central India, had had a business relationship with the Wadias through an investment company that gave them indirectly a minor sharcholding in Bombay Dyeing. Madhavrao Scindia, the cricket-playing scion of the family had entered parliament with the Jana Sangh before crossing to Congress, where he later flourished as a minister.

But as the months wore on in 1979, nothing happened with Bombay Dyeing's licence, which normally followed about six months after the letter of intent. Then the Janata government fell, and new elections were called.

Not long before the vote, Wadia received an invitation to come to New Delhi late in 1979 to meet Indira Gandhi and her son Sanjay. He arrived in the capital with some presentation copies of Bombay Dyeing's new corporate history, marking its centenary year, which he felt might be of interest particularly as Gandhi's late husband Firoze Gandhi had also been a Parsi.

Wadia was directed first to meet Sanjay Gandhi, who made a blunt demand for a political donation. Wadia demurred. 'I'm sorry, we just don't do that,' he said. 'None of us-the Tatas, the Mahindras, us--give money to political parties. We do not have black income. It's just not something we do.'

On being shown in to Mrs Indira Gandhi, and having pre- sented the company history, Wadia broke the subject directly. He knew the reason he had been summoned, but really it was not the way his company operated. He talked on, then noticed Indira was doodling on papers on her desk, looking away. Wadia took his leave, and received a curt nod from Indira Gandhi.

Two or three months after the Congress win in early January 1980, Wadia again received a call to New Delhi from Sanjay Gandhi. Having endured imprisonment and sustained invective for his Emergency excesses during the Janata period, Sanjay was now even more firmly ensconced as Indira's Crown Prince.

'From being a wielder of authority delegated to him by his mother he had now become her partner in power,' wrote the commentator Inder Malhotra. ' . . . At this time Sanjay's power was at its zenith and practically irresistable. Ministers and top civil servants vied with one another to do his bidding, however arbitrary Those having qualms about this soon found themselves in trouble; politicans were sidelined and "recalcitrant" bureaucrats were summarily removed from their positions, humiliated and often kept waiting for months for alternate, usually inconsequen tial, postingS.'3

'You lied,' Sanjay greeted Wadia. 'Tata and Mabindra have paid.' This was almost certainly a bluff. Mahindra, another big Parsi company, which made Jeeps and machinery, and Tata were unlikely to risk their reputations by illicit payments, certainly from their central managements. But many years later, sources close to the Congress Party insisted that some contributions had indeed gone to Indira Gandhi from the Tata group's flagship, the Tata Iron &- Steel Co then under one of the most powerful 'barons' in the loosely held Tata empire, Russi Mody.

It was clear that Wadia would get his licence only one way.

A few months later, however, Sanjay Gandhi was abruptly removed from the scene. Sanjay had been accustomed to venting his energy by taking up a light aircraft for acrobatics over New Delhi, using a plane imported duty-free by a Hindu guru, Dhirendra Brahmachari, another controversial addition to

Indira's inner circle. On the morning of 23 June 1980, the plane crashed into a wooded area in New Delhi, killing Sanjay instantly.

The state funeral was marked by excesses of sycophancy, though expressions of relief were voiced in many quarters all over India. Indira allowed a posthumous personality cult to be con- structed around her late son-but then realised the beneficiary of this would be Sanjay's widow Maneka, whom Indira detested. This speeded up the political induction of Indira's eldest son Rajiv, who had been working as a pilot with Indian Airlines and keeping out of public attention as much as he could. Rajiv had strong misgivings about entering politics, and his Italian-born wife Sonia opposed it, though she and Indira got on well. But at the end of 1980, Rajiv left his airline job and adopted the uniform of politics, the Indian-style kurta-pyjama suit, to become his mother's principal secretary. In June 1981, Rajiv was elected to parliament from his brother's constituency and made a General Secretary of the Congress Party at the end of the year.

It was to Rajiv Gandhi that Wadia turned for help to 'unblock' his licence, some months after Sanjay's death. Rajiv was syrnpathetic to his complaint. 'If injustice has been done to you, I will see that justice is done,' he promised.

Some time later, they met again and Rajiv said he was meeting extraordinary resistance to his inquiries, in particular from Indira's private secretary R. IC Dhawan and from the Congress member of parliament (later Home Minister) R C. Sethi.

But Rajiv's efforts eventually succeeded, and in June 1981 Bombay Dyeing received its licence for the DMT plant-two and a half years after the letter of intent.

Wadia still met obstacles. Bombay Dyeing bought a DMT plant second-hand from an American company, Hercofina, and had it dismantled and shipped to India in two consignments at the end of 1981. When the shipments arrived in Bombay, the company could not get them cleared by Customs for nearly four weeks. Bombay's Collector of Customs, S. Srinivasan, then ordered a rare 100 per cent inspection of all contents. On leaving the Customs service some years later, Srinivasan was retained as an adviser by Reliance.

Dhirubhai continued to enjoy beneficial policy changes throughout the rest of Indira's second prime ministership, thanks to the influence of friends like Finance Minister Pranab Mukherjee and Indira's secretary R. K. Dhawan. After the raising of duty on polyester yarn just after his Patalganga plant became operational, licences for expansion came promptly after lodge- ment of applications. In three months, August to October 1984, Reliance was given letters of intent for a 75 000 tonne a year purified teraphtbalic acid (PTA) plant at Patalganga, plus a 45 000 tonne a year polyester staple fibre plant, and a 40 000 tonne a year monoethylene glycol plant. In addition, the fait accompli of its 25 125 tonne polyester filament yarn plant was retrospectively 'endorsed' by raising the permitted capacity from 12 000 tonnes. Small wonder that the magazine Sunday (also of the Ananda Bazar Patrika group) reported the Reliance bonanza under the headline 'Pranab Mukherjee's Slogan: Only Vimal.'4

The Reliance move into PTA production gave a big clue to the source of Bombay Dyeing's problems, as it showed Dhirubhai was also moving up the petrochemical stream to establish himself as a rival feedstock supplier to the fast-growing polyester industry At that stage, no one else was making PTA.

According to background notes circulated in 1985 by Reliance, Dhirubhai had already begun switching his Patalganga yarn plant over to PTA feedstock and had completed the conversion during the first quarter of 1984. At that point, the Petroleum Ministry and the Industry Ministry had been notified, and Reliance cleared to import its requirements of PTA. Out of the 13 polyester units then in production, four others also began to use PTA for part of their feedstock requirements.

As we have noted, PTA was a substitute feedstock for DMT in the production of polyester. Both are usually made from the chemical paraxylene, which in turn is produced by 'cracking' the flammable liquid hydrocarbon naphtha, found in natural gas and petroleum liquids. Each feedstock had its advantages and disad- vantages. DMT had been in use longer, and needed less expensive containment vessels and piping in the plant, but in the polyester process it produced the toxic alcohol methanol as a by-product, for which a recovery system was needed. I-TA, first made by ICI in 1949 and by Du Pont in 1953, required a

more sophisticated purification process, corrosion-resistant equipment and more stringent control of catalyst mixing, but in polyester production gave a better yield to the paraxylene and MEG inputs. In practice, most polyester fibre plants were able to use either DMT or PTA with minor adjustments that could be made within a few months.

The licensing delays added to the cost of Bombay Dyeing's DMT plant, and it took Wadia more than three years to get it reconstructed and operational at Patalganga. But when it started production in April 1985 it was still a low-cost entry into a product that became the mainstay of Bombay Dyeing's sound profitability through to the late 1990s.

Up until then, the only domestic supplier of DMT was government-owned Indian Petrochemicals, which made 30 000 tonnes a year against an estimated demand of 80 000 tonnes of DMT/PTA by Indian polyester producers in 1984. By the end of 1985, polyester output was expected to jump to about 150 000 tonnes, requiring 160 000 tonnes of either DMT or PTA.

From April 1985 Bombay Dyeing would be well-placed to capture this market, in competition with Indian Petrochemicals and with the other government-owned producer, Bongaigaon Refinery &- Petrochemicals, which began its 45 000 tonne a year production in July 1985. But if Reliance started using PTA and managed to persuade many other polyester producers to do the same, the new DMT capacity risked redundancy.

As Wadia got his plant into operation in 1985, he encountered a sustained stream of press commentary describing his second- hand DMT plant as 'junk' and DMT itself as an 'obsolete' feedstock that would soon give way to the 'more modern' PTA. Many of these comments appeared under the by-lines of those journalists who later became known as core members of the Reliance 'Dirty Dozen' in the press.

Dhirubhai, as we have seen, was then in his most triumphant phase in the eyes of his investor public. But his political support had been drastically undercut, though it was not to become evident until later in 1985, when the struggle for supremacy in the polyester industry became a more evenly balanced, tooth- and-nail fight.

The cause was another violent death in the Gandhi family. At the beginning of June 1984, Indira Gandhi had ordered the Indian Army into the Golden Temple in Amritsar, the holiest temple of the Sikh religion, to clear out the Sikh fundamentalist Bhindranwale-a monster she herself had helped create by pro- moting him as a rival to the Akaii Dal, a Sikh party which consistently outpolled Congress in the Punjab. The battle raged for several days, and eventually the army used tanks and artillery to subdue Bhindranwale's well-fortified rebels. The Golden Temple itself was damaged, and important adjoining buildings destroyed. Sikhs felt their holiest shrine had been defiled by violence. On the morning of 31 October 1985, Indira walked into her garden and was shot at close range by two Sikhs in her bodyguard.

Her surviving son Rajiv was sworn in as prime minister later the same day by the President, Giani Zail Singh, and confirmed by the Congress Party soon after Indira's funeral. Elections were due early in 1985 on the expiry of Indira's five-year mandate in any case; Rajiv brought them forward to early December, and received the benefit of a massive sympathy wave, lifting the Congress share of the vote to 49.1 per cent (from 42.3 per cent in December 1979) and winning an unpredented 401 seats (soon boosted to 415 in by-elections) out of the 545 in the Lok Sabha.

Despite his affection for his mother, Rajiv had been distant long enough from Congress circles to pick up the deep resentment on the part of many Indians at the pervasive corruption she had engendered. But for the sympathy vote, Congress might even have lost the elections, had its diverse opponents worked together. As an aviator and enthusiastic computer buff with many friends working in North America and Europe, Rajiv was also aware of how new technology was helping to sweep aside regulatory regimes and empower individuals elsewhere in the world. He decided India and its politics needed to be opened up. But an element of hubris quickly crept in as well: Rajiv soon came to believe that the sympathy vote was actually enthusiasm for himself and his barely understood policies.

Among the first casualties were key friends of Dhirubhai. Rajiv sacked R. K. Dhawan from the prime minister's office within hours of his appointment. And in his first cabinet he replaced Pranab

Mukherjec as finance minister with V P Singh, a choice that was eventually to bring down the heavens on both Dhirubhai and then Rajiv himself.

Vishwanath Pratap Singh was to become one of India's most controversial politicians. He inspired enormous trust and hope in sbme sections of society, intense hatred as an opportunist and class traitor in others, and ultimately a lot of disappointment and disillusionment.

His childhood shaped him as the loner he became in politics. At the age of five, he was given by his natural parents in adoption to the childless Raja of Manda, one of the small principalities in Uttar Pradesh. He grew up amusing himself in the raja's ram- shackle palace, and spent long spells in boarding schools. The raja was an alcoholic, despondent man dying slowly of tubercu- losis whom Singh was allowed to see for five minutes a day, sitting at a distance to avoid infection. At school when he was nine, Singh was approached by another boy who gave him an ice-cream. 'You don't know me, but I am your elder brother,' the boy said. And don't tell anyone at home that you met me, or else they'll move you to another school.' Singh passed into the care of a guardian at the age of 11 when the raja died, and some years later was taken back, much against his own will, by his natural parents. He studied law, and later physics with an eye to joining India's atomic energy research centre in Bombay, but settled on politics at the age of 38 when he won a Congress ticket to stand for the Uttar Pradesh state assembly.

In the Emergency he stood by Indira and Sanjay, and on Indira's return was installed as UP's chief minister. He was efficient and honest, but attracted most notice by giving police informal powers of summary justice to deal with the banditry sweeping the state. About 2000 alleged criminals died in 'encoun- ters' with police. It was a sample of the ruthlessness Singh could show. But it was counterposed with a diffident streak to his character. A dabbler in painting and poetry, Singh often withdrew into himself. At critical moments, he would hesitate to commit himself. His most heroic roles were forced upon him.5

As Rajiv's finance minister, Singh applied a carrot and stick approach to taxation. In his first budget, at the end of February 1985 for the year starting 1 April, Singh slashed income tax rates and wealth tax, and abolished death duty. Industrial licensing laws were also relaxed and investment approvals streamlined. This new wave of reform sparked a stockmarket boom.

But business circles were less happy from mid-year when Singh began applying his second budget promise. The counterpart of lower tax rates, he had warned, would be stricter enforcement. The agencies under the Ministry of Finance that police –the economic laws began raids and inspections against some of India's best-known business houses for allegedly evading excise, concealing income, or keeping funds offshore. The targets included the Tata group's Voltas Ltd, the tea firm Brooke Bond, the shoemaker Bata, the liquor magnate Vijay Mallya, diamond dealers, and manufacturers of textiles, motor tyres and cigarettes. Orkay Silk Mills, the other polyester maker at Patalganga, was assessed as owing Rs 105 million in evaded excise and fines. Its owner, Kapal Mehra, was personally fined Rs 5 million. Among those arrested for alleged foreign exchange violations were the paper and chem- icals tycoon Lalit Mohan Thapar, and the 82-year-old machinery entrepreneur Shantanu Kirloskar. No one felt safe from Singh's inspectors.

Rajiv's new broom was also sweeping closer to Dhirubhai. As his DMT plant moved closer to production, Nusli Wadia had been lobbying hard for greater protection against imports of DMT and PTA. In particular, he argued that trade policy should support the big investment in domestic DMT capacity by Bombay Dyeing and the two state producers. Mowing a switch to PTA meant a loss of foreign exchange on imports that could be substituted domestically.

A 'secret'-level note circulated by the head of the Petroleum Ministry, G. V Ramakrishna, on 16 May 1985 to Rajiv's economic adviser, Montek Singh Ahluwalia, and the Finance Secretary, S. Venkitaramanan, discussed Bombay Dyeing's plea for greater protection for DMT At that time, both PTA and DMT attracted a customs duty of 100 per cent plus an 'auxiliary' duty of 40 per cent. PTA could be imported on the 'open general list' (without licence) while DMT was on the 'limited permissible list'- meaning that imports needed prior government permission after verification to see that domestic competitors were not damaged. Bombay Dyeing asked for PTA to be shifted also to the limited permissible category, and for basic customs duty on both to be lifted to 150 per cent.

Ramakrishna said his ministry had examined the request and was recommending that the first measure be adopted-that PTA be removed from the freely importable list. But in view of this and other comparative cost considerations, the ministry did not see any need to increase import duty on PTA and DMT

Thus, as Dhirubhai was holding his open-air shareholders' meeting in Bombay on 20 May 1985, the government was moving towards a decision that would have a drastic effect on Reliance's production, and possibly force it to use DMT from Nusli Wadia's DMT plant. On 29 May, the government an- nounced that PTA was placed on the controlled import list with immediate effect.

Dhirubhai was not worried. For a 90-day grace period from 29 May, the government said it would allow those PTA imports for which irrevocable letters of credit had been opened against firm contracts by 29 May. It emerged that, by the time of the notification on that date, Reliance had opened such letters of credit for 114 000 tonnes of PTA-more than enough to supply its existing and planned polyester capacity through to the opening of its own PTA plant expected at the end of 1986.

Moreover, the letters of credit had been opened in a burst of frenetic activity with several banks over 27 to 29 May, up to a few hours before the import policy change was announced. One revolving credit from Canara Bank for 2000 tonnes of PTA a month up to 30 June 1985 had been enhanced on 29 May itself to pay for 12 000 tonnes, and the shipment date extended to 30 June 1986. Letters of credit were taken out also with the foreign banks Societe General, Banque Indo Suez and Standard Chartered Bank on contracts signed some months earlier, for a further 42 000 tonnes.

On 27 May, Reliance had got an entirely new contract for 50 000 tonnes of PTA registered with the Petroleum Ministry in New Delhi, and covered the same day by letters of credit from Standard Chartered Bank, Societe General and the State Bank of India at their Bombay offices. The Exchange Control Manual for banks in India required importers to submit original copies of registered contracts before letters of credit could be opened. Getting this all done during office hours in one day between New Delhi and Bombay seemed a miracle of logistics.

The government was unhappy to learn that its policy change to protect the domestic DMT industry had been so stunningly thwarted. It was even angrier as it learnt the details of the three-day Reliance rush to open letters of credit, suggesting the possibility that the pending policy change had been leaked to the company. Authorities told Reliance that the 90-day grace period would be enforced: A the 114 000 tonnes of PTA would have to be landed by 30 Septernber.

Some 14 000 tonnes having arrived, Reliance took the govrnment to court about the remaining 100 000 tonnes, arguing that the cut-off date was arbitrary and in violation of the implicit three-year guarantee of stability in import policies prior to 29 May. It also argued that it had 'switched over' to M, and that to go back to DMT as a feedstock would require 'crores of rupees' (one crore = 1 0 million rupees) plus new equipment and take several months'.

A single judge in the Bombay High Court awarded Reliance a 'stay' on the government's decision, and authorised the com- pany to import 5000 tonnes which were already available for shipment. For the remaining 95 000 tonnes, the company should approach the government for a supplementary licence--on which the government should decide by 31 October, failing which Reliance could revert to the court for further interim relief.

The government appealed against this order to a more senior bench of two judges in the High Court. While waiting a hearing, the import duty on DMT and PTA was raised a further 50 percentage points to a total 190 per cent. This did not deter Dhirubhai, as international market prices of the two feedstocks were falling rapidly. In court on 28 October, the government argued against the clearance of the 5000 tonnes permitted by the lower court, and for removal of the 31 October deadline for the remaining 95 000 tonnes. The bench dismissed the appeal, but agreed to stay clearance of the 5000 tonnes-the shipment was due in Bombay the next day--for seven days to allow the government to appeal to the Supreme Court.

This the government did. On 4 November, the Supreme Court decided to allow Reliance to clear the 5000 tonnes of PTA but not to use it pending settlement. The government was given three weeks to make its case and Reliance a week after that to respond, with the High Court to make a final decision within December.

In the background of the litigation, Reliance kept feeding the press with accounts of the allegedly unacceptable quality of Bombay Dyeing's DMT, made at its 'second-hand plant'. A small polyester producer called Swadeshi Polytex had told the Industry Ministry's Director-General of Technical Development about defects in a 68-tonne DMT shipment from Bombay Dyeing: sacks supposed to contain DMT pellets were 20 to 80 per cent powder, black particles were found in the pellets, bits of thread, metal and wood were found in the bags, and so on. The picture painted was of Bombay Dyeing pumping out filth from a wheezing, obsolete plant, and angling for massive protection so it could jack up prices to struggling yarn makers.

The lobbying and propaganda war became frenetic in early November. Reliance issued press notes which played up the cost and difficulty of switching polyester plants back from PTA to DMT it was like modifying a diesel engine to run on petrol. The modification would involve 'huge expenditure' and take nine to 12 months. Another note put the investment at Rs 58.6 million (then about US$4.6 million) and the time at 12 to 15 months. If Reliance could not get its PTA, work would stop, with huge numbers of workers laid off. On 2 November, another polyester producer J. K. Synthetics actually announced it was suspending production at its plant in I.' ota because it was unable to get an import licence for PTA.

The private war got dirtier. According to the Bombay tabloid Blitz, two 'campaign briefs' were circulated by the Reliance office in New Delhi among MPs, officials and others. Orkay was accused of pledging the same stock with banks several times to get loans, issuing bogus bills, claiming tax rebates on non-existent production, and under-invoicing imports of polyester chips to evade duty.

With his earlier excise evasion case still being beard, Orkay Silk Mills's Mehra was arrested on 1 November 1985 on another charge. He had allegedly evaded Rs 15 million in duty on polyester chip imports in 1982 and 1983, by under-invoicing the imports from C. Itoh in Japan, according to 'voluminous docu- mentary evidence' collected by the Directorate of Revenue Intel- ligence 'from Japan' a few days earlier. Mehra had bought the material 7.5 per cent below the regular price: evidence of 'under- invoicing' according to the policers, just a 'trade discount' according to Mehra.

Mehra's counsel, Ram Jethmalani, said a 'rival tycoon' had instigated the raids to sabotage a share issue financing Orkay's expansion. Later it was noted that Dhirubhai had been in Japan not long before, visiting among others C. Itoh & Co, which had been accustomed to'irivinz Reliance a 20 per cent discount on polyester yarn sales. Whatever the case, Mehra spent 15 days in jail before obtaining bail-missing the Diwali festivities-and for years was contesting claims for evaded excise and duty and personal fines.

The other target of the Reliance 'briefs' was Bombay Dyeing. It had been getting import policy on PTA and DMT changed to help it out of the 'total mess' created by its decision to buy a DMT plant originally built in 1953. The 1977 price of Rs 300 million had ballooned to nearly Rs 1 billion by the time it was reassembled. 'What else can be expected from a junk [sic]?', the Reliance note said.6 Wadia also came under personal attack: a story put out by the newsagency United News of India quoted 1official sources' alleging Wadia and his wife were involved in a 'fraudulent' deal to sell land belonging to a Parsi trust of which they were trustees.7

But Dhirubhai was now fighting on two new fronts, as well as the legal battle for his PTA imports. On 26 October, newspapers had begun reporting that the Central Bureau of Investigation-New Delhi's highest criminal investigation body which deals principally with corruption cases-had begun inquiries into the possible leak of the decision to put PTA on the restricted import list in May. A few days later, Finance Minister V P Singh denied that he had ordered any inquiry, but newspapers reported moves at official level in concerned ministries including Finance for an investigation.

For its part, Reliance said it was not aware of being under investigation, and put out lengthy written explanations as to why its import contracts in May had coincidentally preceded the policy change. The 50 000 tonne PTA contract approved by the Petroleum Ministry on 27 May had been submitted to it on 14 May. The quantities it sought to import were not in excess of its own use over the 1 8 months until its own PTA plant opened, nor could Reliance conceivably hope to evade the September duty hike. Reliance was

a victim of 'mischievous propaganda'-the allegations were based on 'tailored facts and twisted information circulated by vested interests too obvious to name'.

On 29 October, however, Reliance took another blow which showed conclusively that the Finance Ministry was no longer a friend. On that day, the Assistant Collector of Central Excise at Kalyan, covering Patalganga, presented the company with a 'show-cause 1 notice claiming Reliance had evaded a total of Rs 272.34 million (then aboout US$21.8 million) in excise on polyester production since October 1982 by under-reporting pro- duction and misdeciaring waste. Backed by nine pages of annex- ures giving the details of the polyester manufacturing process, the notice invited Reliance to argue why it should not be forced to pay the Rs 272.34 million, have its factory confiscated, and pay an additional penalty for evasion.

It was the biggest excise evasion charge in Indian corporate history and, even discounting the ambit nature of the Assistant Collector's proposed penalty, a big threat to the profit line in the Reliance results.

The company affected not to be worried. A press release on 15 November described the show-cause notice as 'routine' and noted that similar notices had been issued to other manufacturers in the Thane area, including Sandoz, Orkay, Voltas, and Indian Explosives. It was all part of a drive to raise revenue. The claim against Reliance was based on 'theoretical calculations and assumed- technical information,' the company said. 'The notice was issued in the normal course of business and the company would soon be filing a reply and expected no liability to arise out of the show-cause.'

But Dhirubhai was sweating. On 26 November it was revealed that a compromise on the PTA imports was being worked out. The government would allow actual users of PTA to import their own requirements for six months ahead, but would not allow existing users of DMT to switch over and import PTA. Mean- while, the Bureau of Industrial Costs and Prices would commence a study of DMT costs, to help regulate prices so that domestic DMT had a cost advantage over imported PTA. The condition for Reliance getting import licences, it was suggested, was to drop its High Court action. It could hardly argue.

By this stage, too much corporate blood had been spilt for the dispute to be papered over and forgotten like so many controversies before. Kapal Mehra had been jailed and humili- ated. Nusil Wadia, despite the tariff and quota protection given to domestic DMT producers, had been forced to close his new plant for months because of the feedstock glut that Dhirubhai had engineered by the PTA imports he had managed to get through, and by the constant denigration of his product.

Dhirubhai had meanwhile lost his key lieutenant in charge of public relations and government contacts. On 30 August, his nephew and Reliance director Rasikbhai Meswani had died suddenly. It took some years for other publicists and lobbyists to take his place. As 1985 drew to a close, Dhirubhai was being openly written against as a monster threatening Indian democracy. Blitz observed:

> If the allegations against Dhirubhai Ambani and Reliance are proved, whether in the matter of evasion or in the alleged fraud of letters of credit opened with two foreign and three Indian banks for the import of PTA, then the conclusion becomes inescapable that, since 1969, a single industrialist had been literally dictating the government's textile and import policies and manoeuvring import rules to 'kill' his rivals and maintain his lead in the market ... The challenge to State Power lies in the accumulated wealth and economic clout in the hands of an individual who is neither an elected representative nor accountable to the people, who could rnaniptdate Cabinet ministers as wed as party chiefs. Economic power goes hand in hand with its politi- cal counterpart, resulting in manipulating politicians and minis- ters right to the top of the top. AN this and more has put a new regime seeking to cleanse the Augean stables of the corpo- rate sector in an extremely vulnerable position for its daring to challenge one of the biggest industrial empires with a Rs 27 crore show-cause notice. One can only wish Finance Minister V P Singh good luck with the danda [stick] now that the carrot has been spumed.8

Though he had limited contact with V P Singh--confined to direct industrial concerns--Nusli Wadia had kept up his ties with Rajiv Gandhi and can be expected to have voiced similar concerns to those of

Blitz about the impunity with which Reliance had operated. At that point Rajiv was still fired with zeal to cleanse the Augean stables as well. When Congress Party delegates gathered in Bombay at the end of December to mark the centenary of the party's founding, Rajiv delivered a stinging attack on its corruption. On the backs of ordinary party workers rode the 'brokers of power and influence, who dispense patronage to convert a mass movement into a feudal oligarchy'. Rajiv attacked the legions of tax-dodgers in Indian companies, and the 'government servants who do not uphold the law, who shield the guilty, tax collectors who do not collect taxes but connive with those who cheat the state'. But industrial empires built on excessive protection, social irresponsibility, import orientation and corrup- tion might not last long.9

The Great Polyester War had been lifted out of the factories of Patalganga and from the Pydhonie yarn market to the national arena.

THE PAPER TIGER

It was at this stage that the Polyester War was joined by an lentirely new set of combatants. It became a life-and-death strugglefor dhirubhai's company, and the critical test of Rajiv Gandhi's efforts to clean up the Indian Government. Dhirubhai survived. Rajiv failed, and lost power as a result.

The new element was 'Seth' (Master) Ramnath Goenkal the legendary Indian newspaper tycoon. From a Marwari trading background in Calcutta, Goenka had moved to the southern city of Madras in the 1920s-according to some accounts, at the instigation of his own family, as even they found him too hard to work with-and begun building up the chain of English-language newspapers put under a common Indian Express masthead in the 1950s. By 1985, the Express had India's biggest newspaper 1 circulation, 670000, from 12 regional editions.

Inclined to the Jana Sangh and critical of Congress, though never committed either way, Goenka was happiest in an opposi- tion role, exposing cant and corruption. Like most Marwaris, Goenka was a strict vegetarian, but he did not shrink from drawing blood in print. In the 1950s, he had employed Indira's husband Firoze Gandhi and encouraged his exposure of the Mundhra scandal. The Express had been one of the few newspapers to resist the censorship imposed by Indira during the Emergency all kinds of pressures including a move to demolish its New Delhi buildings for alleged building code violations. Ultimately, Indira had baulked at closing him down-some say because Goenka threatened to publish private papers of her late husband about their unhappy marriage.

In late 1985, Goenka was 81, and his health was starting to fall. But mentally he was still alert and combative. From his sparsely furnished penthouse on the 25th floor of Express Towers in Bombay, Goenka intervened daily in editorial decisions on the Express, hiring and firing editors with great ftequency. He was far from reclusive, receiving a daily stream of visitors anxious to keep in his good books, and flying frequently to New Delhi where the Express had its own guesthouse.

Dhirubhai had been introduced to Goenka in the mid-1960s by Murli Deora, the yarn trader who was moving up in the city's Congress Party circles and later to become a member of parlia- ment. Goenka had noted Dhirubbal as someone of promise, and thereafter the young Gujarati businessman made regular visits. Goenka was regarded as a family friend, addressed as 'Bappuji' (Grandfather) by the Ambani children. The Express frequently reported the controversies involving Reliance, but when protests were made Goenka seems to have placated Dhirubhai by explaining his target was the Congress government.

Nusli Wadia also became a close friend and, as with the childless J. R. D. Tata, became something of a son to the old Marwari. (Goenka's only son had died at an early age, depriving him of his only heir bearing the Goenka name.) Together with his wife, Wadia had got into a routine of having lunch or dinner at least once a month with Goenka.

On one such occasion, around October 1985, Goenka asked Wadia how his business was going. Wadia made a noncommittal reply, but Maureen Wadia intervened and related the smear campaign against Bombay Dyeing in the press, including the Express group's own newspapers.

Goenka said little. But the next morning he arrived suddenly at Bombay Dyeing's head office, Neville House across town in BOard Estate, and walked into Wadia's book-lined corner office unannounced. Goenka waved a file of press cuttings that were obviously planted information. The same morning his business newspaper, the Financial Express, had carried both an anti-Bombay Dyeing story and an editorial on the same subject. Goenka promised to crack down on the Reliance-sourced reports, both in the Express newspapers and in the national wire service run by the Press Trust of India, of which he was currently chairman.

But on 31 October, the Press Trust put out a story based on a press statement by the Reliance public relations officer, Kirti Ambani, about the reports a few days earlier that Reliance was under CBI investigation over the PTA contracts in May. PTI quoted verbatim Kirti Ambani's statement that 'our enquiries reveal that there is no such CBI probe into the matter and that the whole issue is being motivated by a large, private, textile company which also happens to he manufacturers of DMT Our enquiries further reveal that this party is not in a position to dispose of its DMT and carry large stocks of about 5000 tonnes of DMT The basic problem seems to be the quality of the said DMT'

Goenka was outraged, especially when finding that Reliance had directly approached a PTI desk editor to run the press release against Goenka's explicit orders. Goenka ordered a retraction and apology. On 1 November, the PTI issued it: 'The Press Trust of India circulated yesterday a report based on a press release by Reliance Textile Industries Ltd, containing allegations against a reputable Bombay-based textile company. We did not verify the veracity of the allegations before issuing the report. We regret if the publication of the said report has caused any damage to the reputation of the party concerned.'

The old press baron took the issue up with Dhirubhai at their next meeting. According to two former confidants of Goenka, Dhirubhai admitted he used his influence to get a favourable press. 'I have one gold chappal [slipper], and one silver chappal,' he said, breezily. 'Depending who it is, I strike him with the gold chappal, or with the silver chappal.' (Another widely repeated version has Dhirubhai remarking that 'Everyone has his price.' He has denied saying this.)'

It was probably the most damaging blunder and misjudgement Dhirubhai made in his life. Goenka was outraged. He was already embarrassed enough by the case with which Dhirubhai got his version of events into the Express. The implication he drew from the 'gold chappal, silver chappal' remark was that Dhirubhai saw no one, perhaps even Goenka himself, as inunune to his offers. It was just a matter of price.

Goenka resolved to expose Dhirubhai, using all the resources and contacts at his disposal.

Alarmed at the unfavourable turn of government attitude and press coverage in November, Dhirubhai meanwhile made a desperate effort to restore himself to Goenka's favour, and to head off Wadia's successful-looking campaign to have use of domestic DMT forced on the polyester manufacturers. One morning in December he telephoned Goenka and asked him to arrange an urgent meeting with Wadia in Goenka's presence so they could settle their disputes in an amicable way. Goenka called Wadia, who was reluctant. The old man persisted, and called back in the afternoon to tell Wadia a meeting had been fixed in the Express penthouse for that evening. Left with little choice without causing offence, Wadia swallowed his misgivings and agreed to attend.

The three sat around a low table. According to one account, Dhirubhai did almost all the talking during the 45-rninute meeting, proposing that Reliance and Bombay Dyeing carve up the polyester feedstock market between them, or alternatively that Reliance help its rival to place its DMT Goenka presided, taking off his sandals and resting his feet on the table. For long stretches of his monologue, Dhirubhai caressed the old man's feet.

At the close, Dhirubhai invited Wadia to the wedding of his second daughter, Nina, a few days later, and then suddenly embraced the startled Bombay Dyeing chairman. 'So now we are friends?', he asked.

Wadia, highly embarrassed and still suspicious, mumbled a vague assent. Dhirubhai walked towards the elevator, and then just as suddenly turned and prostrated himself on the floor facing Goenka. Then he left.

After the elevator door closed, Wadia turned to Goenka and said: 'I'll bet you that before the lift reaches the ground floor, he'll already be plotting where next to stick the knife into me.'

Goenka reached over and gently slapped Wadia on the cheek: a tacit admonition not to be too cynical.

The next day, Dhirubhai telephoned Wadia at his Ballard Estate office and announced he was personally bringing an invitation to Nina's wedding. Wadia told him there was no need, and after much persuasion Dhirubhai had the card brought over by an executive soon afterwards. On the day of the wedding, a Reliance manager arrived several hours ahead to 'escort' the guest. Wadia sent him away, and went by himself. The reception was in the Cooperage Football Ground, scene of the Reliance share-holders meetings. Mukesh Ambani was waiting to escort Wadia in, and offered to take him to the head of the line of guests waiting to greet the newly married couple and their parents on a podium. Wadia refused, and the two waited in the queue for about 20 minutes making awkward conversation. When he reached the stage, Wadia found a crowd of press photographers waiting to capture the two warring textile magnates together-the point of the exercise clearly being to dispel the atmosphere of dispute surrounding Reliance. Anil Ambani was deputised by Dhirubhai to escort Wadia out to his car, but was sent back by Wadia at the gate.

Within a few days, hostilities had broken out again, and Goenka decided to press on with his investigation.

The person he chose to find out the secrets of the Ambanis was not one of his famous editors, nor one of his reporters, nor even someone from the business milieu of Bombay, but a young South Indian accountant from Madras whose name had not previously appeared in print except at the bottom of audited accounts.

Swaminathan Gurumurthy, then 36, was the product of a Brahmin family in a small rural village 160 kilometres south of Madras. Educated initially in his local school, and then at the Vivekananda College in Madras, Gurumurthy had hoped to enter law school but found his way blocked by his upper-caste back-ground. The state of Tamil Nadu had been swept many years earlier by political movements which instilled the notion that the Hindu hicrarchy--with Brahmins at the top-was a relic of an ancient conquest of southern India's original peoples, the Dravidians, by light-skinned Aryans from the north. To redress centuries of discrimination, the majority of places in universities and state offices were reserved for lower-caste candidates.

Gurumurthy had turned instead to accountancy, qualifying as a chartered accountant in 1972 and joining a local auditing firm which used to keep the books of Goenka's companies registered in Madras. He met Goenka himself in 1975, and made a big impression. Goenka offered him a job, which Gurumurthy declined, and then promised his business if Gurumurthy went out on his own. In 1976, Gurumurthy set up a partnership, Guru &- Varadan, which enjoyed substantial billings from Goenka's corporate empire, a labyrinth of companies acquired over the years and controlled through a trust.

The young accountant held some smouldering feelings that made him an ideal crusader against an erring capitalist. In Tamil Nadu, his caste had been subject to constant ridicule and demonisation. He personally had suffered a loss of opportunity as a result of the state's sociopolitical upheavals, despite coming from a family of modest means in a remote town. The good was being thrown out with the bad.

As a youth, he had found a political movement that for him and many thousands like him across India seemed to provide a way for India to save its soul. The Rashtriya Swayamsevak Sangh (RSS [the National Volunteers Order]) had been founded in the 1920s by a Hindu revivalist in the central city of Nagpur, and expanded across the country to encompass millions of members, many from upper castes who felt threatened by change. The RSS view was that Indians had been left with a defeatist mentality by their centuries of rule by Muslim and European invaders. The foreign rulers had gone, but they had left behind elites indocrinated in their outlook and manners. Ordinary Indians had been made apologetic about the injustices that seemed part of their own Hindu culture, and inclined to believe they could not win against the world's 'martial races'. By counter-indoctrination, from childhood through to manhood, the RSS hoped to create gradually a confident new Indian. Sessions at RSS lodges taught boys the glories of India's past, mixing legend with fact, while members of A ages put on a simple uniform of khaki shorts and white shirt for early morning drill with lathis (wooden staves) to build up their spirit. To counter the valid criticisms of the Hindu order, meanwhile, the RSS tried reform from within through voluntary social work to eradicate evils such as untouchability and caste prejudice, which it insisted were historical accretions on a just culture.

The movement is often ridiculed as a collection of small-town reactionaries playing boy-scout games, retreating to a vague 'mental' battle instead of pushing for power, hiding behind the political parties it spawned (the Jana Sangh, and later the Bharatiya Janata Party). A less benign view, particularly after the murder of Mahatma Gandhi by a former RSS member in 1949 and after the 1992 demolition of the Ayodhya mosque by members of affiliated groups, sees it as a sinister quasi-fascist force. But its reputation for discipline and lack of corruption has also made the RSS political 'family' seem the natural successor by default to the failed Congress and communist alternatives-at least until the BJP started getting tainted by state-level power in the 1990s.

In its economic ideas the RSS family has been nationalist, but suspicious of big capital whatever its origins. The big company threatened the small shopkeeper and trader communities, a repository of traditional virtues. And more recently, multinationals with their universal products and their marketing science seemed to be imposing a western popular culture and lifestyle wherever they set up. 'I regard communism and capitalism as two sides of the same coin,' Gurumurthy told an interviewer some years afterwards. 'Both regard human beings as economic creatures. The only difference between them is whether ownership of wealth should be public or private, and whether there should be profit or not. While

communism will have a Chernobyl at any cost, capitalism will have it only if it demands high profit.'2 In Dhirubhai's case, Gurumurthy was opposed to the monopoly power Reliance had developed. 'I would have rather had 100 Ambanis than just one,' he put it.3

Still, it is ironic that Dhirubhai and Gurumurthy ended up on opposite sides. In the mid- 1 990s, Gurumurthy was the leading light of the Swadeshi Jagran Manch, a BJP-affiliate which actively opposed the entry of multinational consumer brands like Coca- Cola and McDonald's. Dhirubhai was often projected as the new, fully Indian entrepreneur struggling against a business estab- lishment left by the British, such as the Parsi companies, and later as a home-grown businessman fully in command of the latest technology and financial techniques: at last the authentic Indian corporate warrior.

Dhirubhai was of course closely identified with Congress by 1985, though he tried to maintain ties to opposition parties too. What set both Goenka and Gurumurthy against Reliance was their sense of excessive power, of business drive exceeding its proper limits, and of personal arrogance on the part of Dhirubhai himself. '. . . while other businessmen had some sense of guilt and shame about their wrongdoings, Ambani saw himself as an achiever against the law, the system,' Gurumurffiy noted later.4 Gummurthy's background in the RSS also helped immunise him against some of the 'cultural' defences of Dhirubhai's business practices. The Hindu revivalists were happy enough to work through the modern political and economic institutions left by the British. They were a movement of rule-followers, not rule-breakers. They wanted order, not anarchy. India was weak because its politicians could not make sensible laws and stick to them in the face of temptations put up by private interests. The rise of manipulators like Dhirubhai was not a result of Indians breaking out of their mental bonds, but a symptom of their weakness.

Personally, Gurumurthy had few chinks in his armour. He had got to work with important clients because of his own ability. Back in Madras he lived in a traditional extended family house- hold, with everyone sitting on the floor at meals and eating with their hands. He dressed simply, usually with an open-necked shirt, and stayed in the Express guesthouse when in New Delhi or in a simply furnished room in the penthouse in Bombay. Periodically, Gurumurthy would make pilgrimages to Hindu temples and holy sites around India, reappearing with saffron or vermilion tilak daubs on the forehead. He had both a strong sense of probity and a detailed knowledge of corporate accounting and law. He was an inspired choice for Goenka.

The question, in November 1985, was where to start. By that stage, the published information on Reliance made up a substantial file--much of it adulatory profiles repeating the same anecdotes. Gurumurthy decided to work from the two cases where Reliance's secrets seemed to have come close to the surface: the High Court petition by Reliance to enforce the PTA import contracts financed just before 29 May that year, and the 1983 controversy over the purchase of Reliance shares by the Isle of Man companies.

In the Indian Express organisation, Gurumurthy had direct contact with the chairman and the newspaper's considerable resources within India itself. He found also that some of Dhirubhai's opponents in industrial and trade conflicts also kept information about Reliance. Notable among them was a Sindhi textile trader, jamnadas Moorjani, who worked from a modest office in a back street of Bombay's Kalbadevi district but whose knowledge of markets and judgement was respected all over town. As president of the All-India Crimpers' Association from 1978 to 1982, Moorjani had led the campaign by the independent polyester texturisers against the duty hike on yarn in November 1982.

Though he found a pervading fearfulness about discussing Reliance, Gurumurthy also built up contacts with bureaucrats, bank officials and even Reliance employees who were uneasy about some of the company's transactions.

When it came to pursuing inquiries overseas, the little-travelled Gurumurthy relied initially on names suggested by Wadia, drawing on business contacts kept by Bombay Dyeing and associated companies. The initial contact was a firm of solicitors, Lee Lane Smith, in London's Lincoln's Inn Fields, who undertook a legal search of the mysterious shelf companies with names like Crocodile and Fiasco in the Isle of Man. In mid-December, the solicitors engaged a private detective agency, King's Investigation Bureau, to help them trace the ultimate owners.

By then, at Reliance, the atmosphere was becoming one of a seige as the Finance Ministry's tax enforcement agencies and the Central Bureau of Investigation pursued their inquiries into the PTA letters of

credit and the excise evasion charge. In February 1986, the years of living on adrenalin took their toll on Dhirubhai. He suffered a sudden stroke that left him partly paralysed down his right side and required immediate attention in an American hospital. For some weeks, the running of the company was left to the two boys, then aged 29 and 27 respectively.

Dhirubhai's critics were also shaken, by a sudden, still unex- plained attack on Jamnadas Moorjani. Sensing a more sympathetic government in New Delhi, the crimpers had renewed their agitation for the Rs 15 000 a tonne anti-dumping duty to be lifted. One evening in February, a gang of men attacked the unassuming Moorjani as he left his Kalbadevi office and walked to his car. He was slashed with long knives, with one arm nearly severed, but recovered quickly in hospital. Years later Moorjani pointed out that nothing linked the attack with the clash of interests between the crimpers and the polyester spinners,s but at the time the possibility of such a linkage was the subject of great speculation in Bombay.

In this vitiated atmosphere, the Indian Erpress launched its expose of Reliance with a misleadingly theoretical-looking piece on the merits of allowing conversion of the unconvertible security, carrying the modest by-line 'By S. Gurumurthy'.

> If the main rule prohibits something, get a sub-rule added which permits it. The main rule will no doubt exist in the book but the book alone. Business thrives on such rules. Touts make their fortunes, politicians enhance their power and bureaucrats their importance. Rule of law at once becomes sub-rule of law and sub-rule eventually becomes subversive rule. Let us get down to specifics . . . 6

It was not the way a practised journalist would have opened, but Gurumurthy set out a powerful argument against the practice that had become a hallmark for Dhirubhai-raising debt by offering attractive interest rates and then converting it to cheap equity, by the 'innovative' path of converting supposedly non-convertible debentures into shares.

This risked destroying the whole principle behind the distinc- tion between convertibles and nonconvertibles, reflected in the lower premium and higher interest rate on nonconvertibles, Gurumurthy pointed out. No one would bother with convertible issues if it were allowed as a general practice. 'There is yet another mischief,' Gurumurthy noted. 'Those corporate managements which deal in their own securities can abuse this licence by buying these nonconvertible debentures at a lower price and thereafter announcing conversion. There were allegations of this abuse in the only case of conversion of the nonconvertible in recent stock market history'

Gurumurthy also pointed to a 'risk of unforeseen foreign exchange outflows, a keen preoccupation of India's economic managers at that time. The scheme of repatriable investment by non-resident Indians in the sharemarket put no limit on the proportion of nonconvertible debenture issues that could be taken up by NRIS. But NRI investment was limited to a maximum 40 per cent of convertible issues, in some circumstances to a maximum of Rs 4 million, so that the outflow from capital appreciation of the underlying shares was limited. If conversion of nonconvertibles were allowed, NRIs could take up the whole of an issue, convert to shares, and take 0 proceeds of a sale out of the country

Getting to Reliance by the final stages of his article, Gurumurthy applied this to the company's F series of nonconvertible debentures made in June 1985. Out of the Rs 2.7 billion subscribed in the private placement, Rs 1.08 billion or 40 per cent had come from overseas Indians or companies they controlled. Had the issue been convertible from the start, the NRIs could have subscribed only Rs 4 million under the current rules. But Reliance was now holding out the expectation of conversion of the issue, which would be a 'clear distortion' of the NRI investment rules. (Reliance's advertisements for the F Series had mentioned that the conversion of a previous series had given investors a return of 180 per cent in eight months, including interest: the nonconvertible part of the debentures had been converted at Rs 71.43 a share, when the market price was Rs 122 a share.)

For example, if Reliance were allowed to issue just one share for each Rs 100 debenture, the NRI investor would gain a share worth Rs 300 at the then market price. For their Rs 1.08 billion investment, the NRIs would be entitled to repatriate Rs 3.24 billion.

'That the sub-rule has the potentiality to destroy the main rule is obvious and yet the sub-rule exists,' Gurumurthy said in his final flourish.

It was introduced into the guidelines when different ministers and a different system of governance obtained. Whatever anyone may say of the present finance minister [V P Singhl, no one disputes his bona fides and honesty of purpose. He has no use for such sub-rules. Will the government, particularly the finance minister, act to prevent examples of this kind becoming model practice? Investments based on such questionable methods will become a menace. The government must therefore act to prevent this prejudicial tendency from becoming a part of the system. A measure of avoidance is "er than compulsive surgery later.

A week later, Gurumurthy returned to the attack. He began in the philosophical style that became his hallmark:

Truth reveals itself, though often belatedly. This admirably suits the politician in power. T'he interregnum between truth and its revelation is generally a period of manipulation. In this interregnum alibis and half-truths rule. Finally, unless someone is alert, truth gets confined to the archives. Result: alibis masquerade as truth ...

Gurumurthy recalled the grilling of the former finance minister Pranab Mukherjee in 1983 over the non-resident Indian invest- ment in Reliance, and his defence that while black money could be involved this was not reason enough to MI a scheme bringing in much-needed foreign exchange. The figures, Gurumurthy wrote, showed that the NRI share investment scheme had brought in less than one per cent of the Rs 139 billion invested by NRIs in various deposit and investment schemes since 1981.

The Rs 225 million invested by the 11 Isle of Man companies in 1982, augmented by a further Rs 6 million for a rights issue of debentures, had grown into a share portfolio worth a repatri- able Rs 1 billion. And if Reliance gave its standard bonus issue in 1986 and were allowed to convert the nonconvertible part of its October 1984 E Series debentures, the holding would grow to some 5.2 million shares worth Rs 1.67 billion. If the 1 1 companies had taken up their allocation of the June 1985 F Series, and conversion was allowed, the holding would grow to 26.8 million shares, worth Rs 8.58 billion. Then equivalent to some US$650 million, this repatriable amount was equal to 15 per cent of India's foreign exchange reserves at the time.

This form of investment was a dangerous game for India, Gurumurthy argued. With the sharemarket index doubling in the year past, it meant the country could have to return twice as much foreign exchange as it gained, when-if it had needed to-the goverrunent could have borrowed at a small margin over the London interbank rate. Nor was the scheme very honest: 'It appears to be tailor-made for motivated investment not altogether in the national interest.'

The arguments in these two articles were well made, and stirred up a subject that smelled from the start. But the scenario of capital flight that Gurumurthy depicted was contradicted by one of the implicit assumptions made by the critics of Mukherjee. If Dhirubhai was the ultimate owner of the Isle of Man compa- nies, how could he sell off their Reliance shares without depress- ing his own share price?

A week later, however, Gurumurthy moved into new allegations. 'Smuggling in Projects' was the headline on the first of a two-part story. 'Coastal smuggling is a traditional offence,' he wrote. A more sophisticated form of smuggling thrives in the capital. It is a comparatively open affair. Five-star hotels and expensive guest- houses are its citadels. The commodity in traffic is however different-it is licences, quotas, permits and other largesses by Government . . .'

Business controlled important government decisions through their lobbying operations in New Delhi. This was how a project had been 'smuggled' from the government sector to a private company. In 1980--8 1, the Petroleum Ministry had been working on plans for a petrochemicals refinery at Mathura, which included a 150 000 tonne a year purified terephthalic acid plant. In March 1981, Reliance had submitted its licence application for a PTA plant the same size. To overcome the Petroleum Ministry's resistance, its Secretary was transferred in July 1983. In October 1984, Reliance got its preliminary approval for a 75 000 tonne plant. The proposed PTA plant at Mathura was cut back to 75 000 tonnes, and had been stalled in any case by lack of government funds.

Thanks to the help of Finance Minister Mukhedec, Reliance looked like having 100 per cent of India's PTA production, and 34 per cent of the country's combined DMT and PTA output. Its control of other

feedstocks, by-products and end-products in the polyester chain ranged from 38.6 per cent up to 62.5 per cent, according to Gurumurthy. India's anti-monopoly law defined a dominant undertaking as one with more than 24 per cent of national installed capacity, but none of Reliance's applications had been referred to the Monopolies and Restrictive Trade Prac- tices Commission.

Raising the example of the pre-World War 11 industrial, trading and banking combines in Japan called the zaibatsu, Gurumurthy warned that India too risked having its government 'controlled from the boardrooms of industry'.

Powerful as the critique was, Gurumurthy was working up to then from published knowledge. On 15 May 1986, he began reporting from the results of his own investigations, in a three- part series entitled 'Reliance Loan Mcia'-mela meaning a fair or bazaar, and 'loan mela' referring to the notorious practice of Congress politicians handing out loans from government to their constituents in carnival-like ceremonies. The Reliance loan mcia was not a case of giving a few hundred rupees to a poor family to buy a buffalo or irrigation pump, said Gurumurthy. 'It has to do with crores of rupees smuggled from banks in an ingenious and brazen scheme to divert public funds to private ends.'

It began with the Rs 843 million E series of debentures (in October 1984) and the Rs 2.7 billion F series issue (in June 1985). After each issue, the main branches of the big Indian banks received requests for loans from numerous small unknown companies, pledging Reliance shares and debentures as security. In June 1985, for example, the Punjab National Bank had received nine near-identical requests from nine small companies with names like Patience Holdings & Trading and Inspirations Investments & Trading for Rs 9 million each, with each offering to pledge 90 000 Reliance shares as security.

Gurumurthy's investigations found that the registered addresses of such companies were often those of Reliance offices, its associates or employees. Many put up Reliance shares as collateral, in some cases the same debentures for which they were seeking the loan to buy. In some instances, the loan was facilitated by a personal guarantee from Nathubhai Ambani, Dhirubhai's younger brother. The Ambani family investment vehicle Mac Investments had been lent Rs 6.64 million in October 1984 by the European Asian Bank-the same bank that had lent to three of the Isle of Man companies through its Colombo branch in 1982. The same day Mac's subsidiary Real Investments also got the same amount from the same bank. Around that time another Mac subsidiary, P@am Investment & Trading Co got Rs 5 million from Bank Indo-Suez and another subsidiary, Nikhil Investment, got Rs 5 million from the Bank of Credit and Commerce International.

A few banks (among them Punjab National Bank and the State Bank of India) had turned down the applications. Most did not: the article listed 16 banks as giving a total Rs 1.018 billion in loans, among them many of the state-owned banks. In some cases, middle managers of government banks had ignored specific board directives and authorised loans on specious ground of urgency. Some had been rewarded with promotions. None of the banks had obtained the Reserve Bank of India's clearance for loans above Rs 500 000 against shares, as required by central bank guidelines. And to enhance security of loans, the borrowers had also been able to get Reliance to deposit large amounts of the public subscriptions to the debenture issues with the lending banks-a way of recycling the public's money back to the man- agement.

'This entire operation,' said Gurumurthy, 'taking in dozens of companies holding what are essentially the management share- holdings of Reliance, was a planned affair, tied up intimately with the Ambanis and Reliance, for the purpose of cornering more than Rs 100 crore [one billion] to invest in the two Reliance debenture issues.'

The operation was known to the Reserve Bank, whose inspec- tors had noted that 'the possibility of a common link in the management of these companies with Reliance Industries cannot be ruled out'. As the stockmarket boomed in 1985, the central bank had sent a circular to commercial banks urging caution in lending against shares, and to see that bank advances were not used for 'speculative or other anti-social purposes'. It told banks that 'the main point of emphasis is that in granting advances against shares, banks should be more concerned with what the advances are for, rather than what the advances are against'.

Gurumurthy asked what point there could be in, say, Mac Investments borrowing Rs 1.5 million from Canara Bank at 18 per cent interest to buy debentures carrying 13.5 per cent interest. The borrower must have known that the capital appre- clation of the Reliance shares obtained from conversion of the nonconvertible portion of the debentures, would yield a profit of some 400 per cent. The Ambani management would also have consolidated its hold on Reliance by borrowing to buy its own company's

shares---expressly forbidden by the Reserve Bank. Reliance had already started talks with the Ministry of Finance to have the E and F series fully converted. The company's shares had already started booming in expectation. 'If this is not spec- ulation then what is?', asked Gurumurthy.

The accountant-turned-journalist also took aim at another carefully nurtured Reliance claim: that it did not rely on funding from government banks but on direct borrowings and investment from the public. This had been a condition put by the govern- ment on the licences for the new PTA plant and other units in 1984, so as not to 'strain' the resources of the banks. Among others, the industry minister, Narain Dutt Tiwari, had recently praised Reliance for raising Rs 3.5 billion on. its own. 'Mat would all these gentlemen have said had they known that more than Rs 1 billion of this actually came from banks in one of the most elaborate tricks played on the system? Or is it just possible that some in authority actually knew and chose to turn a blind eye to the facts?'

Gurumurthy had not done so well in his overseas inquiries. The lawyers and private eyes engaged in London were laboriously searching company records in tax havens to trace ownership of the non-resident investors in Reliance, but results were slow in coming. A letter from the London contacts on 16 April enclosed a fresh report from King's Investigation Bureau with the comment that it was 'very feeble'.

King's had been asked to look into nearly 120 companies ostensibly owned by non-resident Indians which had invested either directly into Reliance shares, as in the 1982 case, or by subscription to the Reliance E and F series debentures. Possibly with the help of concerned banking officials, Gurumurthy had also obtained lists of NRI companies which had borrowed from the Bank of Oman and certain other banks to buy into the Reliance issues.

The nationalised Bank of Baroda had played a big role in financing the issue. Mostly from its London office, the govern- ment bank had advanced a total US$33.5 million to NRI com- panies and individuals, apparently nominated by Reliance, to help them to subscribe to the F series debentures. This was about 40 per cent of the Rs 1.08 billion investment made by NRI sources. The loans had similar terms: two percentage points over the London interbank rate or 10 per cent a year, while the return from interest was 1 1 per cent after tax. The investors were clearly after the capital gain from eventual conversion to equity.

The detectives had exhaustive searches made on the names in the Channel Islands as well as the Isle of Man, but most turned up negative. In the Isle of Man they found that 10 of the 11 controversial companies from 1982 had undergone a sudden change of ownership and directors in August 1985. The two most provocative names had also been changed to something more innocuous: Crocodile Investments had become Asian Multi- Growth Investments, and Fiasco Investments had become Asian Investments. In the case of the 11 th corn any, Tricot Investments, 1 p it was not possible to establish non-resident Indian ownership at all.

With the 10 companies, the various Shahs and Damanis of Leicester, Berlin, Djibouti and New York had suddenly transferred their 55 to 80 per cent sharcholdings in August 1985 to newly formed holding companies in the British Virgin Islands with names matching those of the Isle of Man companies they now owned. Inquiries in Leicester found the Shahs had not received any noticeable jump in their wealth from the sale of control over equity, by then worth over Rs 1 billion or US$80 million. Indeed, family members professed the same degree of ignorance as they had in 1983. By then, Krishna Kant Shah-Dhirubhai's. old Junagadh schoolmate-was too ill to meet anyone (and died in May 1986).

The New York investors, Praful and Nalini Shah, turned out to be a middle-class young couple mostly living off Praful's average-size salary as clerk in a city law firm. They had bought their modest home in the suburbs for US$49 000 with a $34 000 mortgage and drove an 1 1 -year-old Dodge. They had not appar- ently come into any recent wealth either, but any connection they had with Dhirubhai was not discovered.

As of August 1984, the British Virgin Islands had had a company code designed for the discreet investor. Called the International Business Companies Ordinance, it allowed compa- nies to issue shares to an unnamed bearer who was allowed to vote at company meetings. Companies could issue non-voting shares, so that technically an NRI could own 60 per cent of the capital to comply with the Indian rules but have no voting rights at all. And it could have faceless shareholders through trusts, corporate bodies and the like. Directors and shareholders could even participate in meetings by telephone.

Including these companies, Gururnurthy's inquiries found that a total of 32 companies registered in the Isle of Man or the Channel Islands had subscribed a total Rs 141 million to the F series debentures. The 10 British Virgin Islands companies had subscribed Rs 50 million. And some 41 companies in the United Arab Emirates had been lent an average Rs 1 million each by the Bank of Baroda to subscribe.

Out of the new names in the British tax havens, the searches found that new directors had been appointed over August and September 1985, just after the F series issue. Many had an Indian resident of Dubai, Homi Ratan Colah, as their new director wielding majority control. Others had people of Indian names listed as residents of Nigeria.

The Dubai companies had some fanciful names taken from various ancient Sanskrit scriptures: 10 from the Vigneshwara Ashtotra, and 12 from the Sandhya Mantra. Several others took names from the avatars of Lord Shiva and other divinities. Reliance's Middle East 'co-ordinator' and Dhirubhai's old colleague from Besse & Co in Aden, Bharat Kumar Shah, subscribed Rs 35 million in the names of himself and his family, and in the first week of September 1985 had sent a list of borrowers including himself to the Bank of Oman.

Through a firm of Panamanian lawyers with an office in London, the investigators had also done a search in Panama on more than 100 company names matching those on the list of Reliance investors. They found some of the names, 0 registered on the same day in July 1985. Listed among company officers were two members of an Indian firm of chartered accountants in Dubai which had done work for Reliance. But the London investigators reported back to Bombay that their local agents had not been able to get information out of the Panama lawyers who had incorporated the companies. 'Our agents have been advised that this is a most delicate matter, and should not be pursued further,' they said.

It was unsatisfactory--and tantalising, given that the trail seemed to lead through the tax havens and corporate hideouts of the globe back towards Bombay. The leads in Panama and Dubai were not enough to build a story on. But it was enough for Gurumurthy to resume the chase abandoned by the Indian press in January 1984-when, he claimed, the Ananda Bazar Patrika group had been warned off by the withdrawal of all Reliance advertising.

In a four-part article published over 11-14 June-under the heading 'Reliance, crocodiles & fiascos-he went through the story of the Isle of Man companies once again, emphasising the series of coincidences that pointed to a single manipulator close to the action in Bombay. Given the secrecy rules applying in the British Virgin Islands, how was the Reserve Bank of India to verify that the companies had 60 per cent control by non-resident Indians, as required by the Indian rules? Had the central bank even been informed of the changed control in 1985?

Gurumurthy also highlighted the way in which changes in the investment rules had been timely for the investments by the Isle of Man companies. Between late March and August 1982, during two bear attacks against Reliance, some 1.872 million shares in the company.-nearly 10 per cent of the then issued capital-had been bought by brokers on behalf of unnamed NRI investors.

The investment rules had been relaxed first on 14 April 1982, just after the first bear attack, to give repatriation rights to NRIs and extend investment freedom to companies, partnerships and trusts with 60 per cent NRI ownership. Then on 20 August, just after the second attack, the rules were further relaxed to remove the Rs 1 00 000 (face value) ceiling for any one NRI investor. Instead, each NRI investor could hold up to one per cent of the paid-up capital of the company. Instead of having to distribute the 1.872 million Rs 10 shares among 187 owners, the require- ment was now just 10 separate shareholders. Only on 9 August 1982, G- urumurthy pointed out, had the various Shahs and Damanis acquired their 60 per cent-plus control of the 1 0 Isle of Man companies. The amendments to the investment rules had clearly been 'tailor-made'.

In Gurumurthy's 12 articles over three months, the Indian Express had fired a devastating broadside at some of Dhirubhai's weakest defences.

It had been an expensive lesson for having got on the wrong side of the old Marwari newspaper baron sitting at the top of Express Towers.

UNDER SIEGE

So far, it had been just words-wounding as they were to S Dhirubhai and Reliance. But within three months, the Indian Express campaign led to action. Late on the. night of 10 June 1986, the Ministry of Finance in New Delhi issued a formal notification that the political affairs committee of Rajiv Gandhi's cabinet, comprising the prime minister and his most senior ministers, had decided to ban the conversion of nonconvertible debentures into shares.

The timing of the cabinet decision could not have been more pointed. It had been widely known that the board of Reliance had been called to meet the next day, 11 June, specifically to decide to recommend conversion of the E and F series debentures at the annual shareholders meeting two weeks later. On 4 June, a meeting of finance officials had given 'in principle' approval for conversion, and the Reliance share price had jumped to a high of Rs 392. Once approved by the shareholders meeting, the company would have applied for formal permission to the Ministry of Finance.

The government's decision meant the company had lost a chance to extinguish Rs 3.23 billion in debt, and make a corre- sponding boost to its reserves and net worth, while cutting about Rs 480 million in annual interest. The debenture holders had lost the chance of a quick 200 per cent gain on their original investment.

Even before trading opened in the Bombay Stock Exchange on 1 1 June, Daial Street was crowded with investors off-loading their Reliance debentures in 'kerb' transactions. The E Series debentures had been trading around Rs 222.50 and the F Series at about Rs 210 up to then. They crashed within a few hours to around Rs 1 1 0. Dhirubhai met his other directors late in the afternoon, and adjourned to consider other proposals to put to shareholders.

More bad news was coming in. On 17 June, Finance Minister Singh presided over an 'open house' hearing of claims and counter-claims about the Rs 15 000 a tonne 'anti-dumping' duty that had been applied on polyester yarn back in November 1982. Anil Ambani represented Reliance. Jamnadas Moorjani attended for the All-India Crimpers' Association to oppose the levy. The next day, Singh abolished the duty and yarn prices dropped 20 per cent immediately. The same month, the authorities placed a Rs 3000 a tonne extra duty on imports of PTA to help the domestic manufacturers of the alternative feedstock DMT

Dhirubhai was embattled on several other fronts. Just as the newspapers reported the ban on conversion of nonconvertibles, Gurumurthy began his series on the Isle of Man and other NRI investors. Four months earlier, on 18 March 1986, the minister of commerce, E Shiv Shankar, had confirmed to parliament that the Central Bureau of Investigation was looking into the alleged leak of the May 1985 policy change on PTA imports. At the start of June, Finance Minister V P Singh had ordered the Reserve Bank of India to seek the facts of the 'Reliance loan mela'.

In addition, both Reliance and Bombay Dyeing were getting drawn into complicated litigation launched by small shareholders who seemed to have ample legal resources at their disposal. The same complaints were also being taken to ministers, the Company Law Board and the heads of financial institutions by backbench MPs suddenly seized of the urgency of the accounting intricacies involved.

The case against Reliance had been taken to the Supreme Court by one Om Prakash Arora, a medical practitioner in New Delhi who-according to his letterhead-offered 'occult treatment for baffling diseases' affecting the head, skin, sex life, nerves and stomach, and who lived by the motto that 'Life is not a problem to be solved but a mystery to he lived'. He alleged that Reliance was cheating on the interest paid to holders of F Series debentures.

Nusli Wadia, for his part, had to divert attention to a case taken, inconveniently, to the Calcutta High Court by one Kamal Singh Bhansall, who owned five Bombay Dyeing shares. He alleged wrong entries in the company's accounts for 1984-85 and obtained a court injunction against distribution of divi- dends-just two days before Wadia was due to hold his annual shareholders meeting. Bhansall's shares were worth about Rs 2600 but he had been able to engage one of India's most costly firms of solicitors and a team of advocates whose combined fees for the case would have been 100 times that amount.

Dhirubbai's response to the crisis was typically flamboyant and combative. On 26 June, he held his meeting with shareholders as scheduled. The Cooperage Football Ground had been replaced as too small a venue. Instead, some 30 000 investors flocked to the Cross Maidan, a large central park in Bombay, and sat under canvas awnings. The small investors were anxious for their annual theatre. They wanted to see how Dhirubhai was shaping up, after his stroke in February and the onslaught by the Indian Express. They expected Dhirubhai to come up, once again, with the unexpected and get around the conversion ban.

Dhirubhai did not disappoint, though his speech was obviously a physical strain for him to deliver. Reliance would soon come out with a new, fully convertible debenture issue on a rights basis to existing share and debenture holders, and would convene an extraordinary general meeting to approve it. The company would try again to win permission to convert the E and F Series. Reliance was meanwhile selling 42 per cent more in the first five months of 1986 than it had in the same months of 1985, and sales might cross the Rs 10 billion mark for the full year. The company was drawing up plans for a further Rs 20 billion investment in new and existing products, including plastics at the proposed petrochemical plant at Hazira in Gujarat.

As for the 'propaganda' against the company, this was a result of success which had created 'jealousy.' Nonetheless. some 320 000 new shareholders had recently joined the Reliance 'family', swelling the ownership spread to 1.8 million. The company operated fully within the law. The management did not own a single F Series debenture. The non-resident investors numbered 1 1 000 and were spread across 55 countries. Anywhere else but India, this achievement would be honoured.

But the news continued to get worse for Dhirubhai. Pleas to Goenka by Mukesh and then Dhirubhai himself had brought a temporary truce in the Express campaign. But this peace was accidentally broken by the Reliance camp when a pro-Congress magazine called Onlooker ran an attack on Wadia, despite last- minute efforts by Dhirubhai's friend, the MP Murli Deora, to have it canned.'

In any case, other publications were taking up the attack on Reliance. On 5 July, the tabloid Blitz took an existing scandal a lot further. Understatement was not a hallmark of its editor, Russy Karanjia. T'he ftont-page splash began: 'The meteoric rise of the Reliance group of companies to the pinnacle of monopoly power was fuelled by a series of swindles of a magnitude unparalleled in the annals of corporate fraud in this country, incontrovertible evidence in the possession of Blitz reveals . . .'

What the newspaper possessed actually related to one trans- action, an enhancement of one of the letters of credit for the import of PTA carried out in May 1985. A branch in Bombay of the Canara Bank, owned by the government, had increased the finance provided in the letter by US$6.93 million (to US$8.32 million) in a handwritten amendment dated 29 May 1985-the same day that the import policy was changed. As well as the amendment, Blitz had a copy of a letter by a Reliance finance manager dated 31 May to the Canara Bank branch. It complained that in the bank's communication to the M sup- plier (the British chemicals giant ICI) 'the fact the above LC has been enhanced on 28.05.85 has not been brought out clearly ... You are aware the effective date of enhancement of the above LC is one of the important factors which now you may communicate to the beneficiary stating that the LC has been enhanced on 28.05.85'.

The company was worried that a letter of credit dated the same day as the policy change would be disaowed. The branch manager obliged by sending a telex to ICI to this effect on 1 June. In a follow-up article, Blitz reproduced correspondence from Reliance to ministers and senior government officials in which the company insisted A letters of credit were taken out before 29 May--assertions Blitz described as 'lies' and 'fooling the government'.

The bank manager's action could be put down to a willingness to correct a simple clerical error that could disadvantage his client, if indeed the transaction had been made on 28 May. But it had already drawn rebukes from the Canara Bank's own inspectors at head office-who asked what were the 'Important factors'-and a request from the central bank for the discrepan- cies in dates to be cleared up. And as the Blitz report came just after Gurumurthy's account of the 'loan mela'-in which several Bombay branches of the Canara Bank had figured, against their board's initial wishes-the possibility of a more serious forgery was more credible.

The Reserve Bank of India had meanwhile reported to the Ministry of Finance at the beginning of July on its preliminary inquiry into the loan mcia. It found that nine banks had given advances totalling Rs 592.8 million in India during 1985 to companies apparently associated with Reliance, against security of Reliance shares and debentures. The loan accounts totalled 187, given to 63 companies. Reliance had placed money with 0 the nine banks, totalling Rs 919 million, as deposits, not collateral. Several of the borrowing companies had been established very recently, and in some cases with a capital of only Rs 1000 or Rs 10 000 though they had borrowed amounts as great as Rs 9.5 million. The purpose of the loans was generally stated as 'working capital' or 'purchase of shares'. In all cases, the security offered was shares or debentures of Reliance, held either in the name of the borrowing company or that of another company connected with Reliance. The banks had not worried about repayment capacity of the companies, or looked into the end use of the ftmds.

The loans had not broken every rule. RBI directives required that shares pledged against loans of more than Rs 50 000 be transferred to the lending bank's name. This had been complied with, generally. The loans had been repayable within 30 months, in some cases 12 months, and thus were not long-term loans (five years and more) which required RBI approval. But by granting large advances to Reliance-lird,,ed companies, possibly to help strengthen the controlling interest, the banks had not adhered to the 'spirit' of the RBI guidelines-that loans be given to assist productive activity.

On 14 July, Finance Minister Singh presented the interim report to the lower house of parliament and the Reserve Bank's governor, R. N. Malhotra, appointed one of his two deputy governors, C. Rangarajan, and three other central bank and Finance Ministry officials to make a full inquiry On 22 July, Singh spoke in the parliament's upper house, and assured MPs that the loans would be recalled if the Rangarajan committee found they had been given in violation of rules and were not being put to proper use.

The remark caused new pandemonium in Daial Street. The price of Reliance shares tumbled from Rs 366 to a low of RS 312, before closing at Rs 317. The Bombay Stock Exchange had earlier doubled the margin-the up-front payment ahead of settlement-on buyers of Reliance shares, from Rs 40 to Rs 80 because it was aware of heavy buying by the company's own support system. This limited Dhirubhai's ability to stem the day's rout. But things went so badly, with Reliance dragging down the whole market, that at the close of the day the exchange also put a similar margin on sales, putting shackles on the bears as well.

Reliance also came under attack in parliament when the central bank's interim report was debated on 31 July. A dozen leaders of opposition parties (including communists, regional groups and the BJP) signed a letter urging a thorough probe into Reliance. A scrutiny of this industrial monopoly by the press has unfolded massive and ingenious schemes and methods adopted by the company in gross contempt of public policies and statu- tory laws formulated by successive governments.' Another parliamentarian, A. G. Kulkarni, belonging to the Congress splinter group led by the Maharashtra state strongman Sharad Pawar, pointed to a deputy governor of the Reserve Bank itself being involved in the collusion. The prime minister, Rajiv Gandhi, assured the MPs that the affairs of Reliance would be 'scrutinised on merits' and action taken 'according to law after inquiry'.

The price of Reliance shares continued to fall, hitting Rs 274 in Bombay on 4 August. To slow the crash, the Bombay Stock Exchange raised the daily margin on sales to Rs 100, and in addition banned new sales in Reliance except for immediate delivery The scrip recovered to Rs 290 after the decision. Goenka's Financial Express criticised the ban on forward sales. 'The assumption underlying the ban is that forward selling is tending to bring down the prices of the scrip below the realistic levels,' it said in a commentary 'But the truth is that Reliance's scrip is in the process of shedding a part of its unrealistic and artificial prices.' If the exchange was going to halt forward sales for a while, the newspaper said, it should stop forward purchases as Well.2

Gurumurthy then weighed in with yet another sensational allegation, which kept the share price failing: Reliance was a company that had smuggled in a Rs 1 billion industrial plant. 'We know of watches,radio recorders, videos, popular consumer durables, sneaking into India. Then there are those who try and slip gold biscuits [ingots] and narcotics past the Customs,' he began. 'But we had not, so far, come across those who smuggle in large factories . .''3

In late 1985 and early 1986, Gurumurthy said, Reliance had imported the components of its new 45 000 tonne a year poly- ester staple fibre plant in consignments by sea through Bombay and by air through the Bombay air cargo terminal. Dispersed among the same containers were the components of a second plant, able to make 25 000 tonnes a year of polyester filament yarn. –

This had been the third case of smuggling in yarn-making capacity by Reliance, he said. In its original yarn operation set up in 1982, Reliance had actually imported a 25 000 tonne a year plant under the guise of its licensed 1 0 000 tonne plant. The 're-endorsement' scheme of Pranab Mukherjee had allowed Reliance to legitimise this in 1984. At the same time it had been allowed to import 'balancing equipment' to match the capacities of the polycondensation units (which make the polyester) and the spinning lines (which extrude it into yarn). The Rs 183.8 million worth of 'balancing equipment' the company had been licensed to import in early 1985 was actually an additional yarn plant capable of making 20 000 tonnes a year. Together with the newly smuggled third plant, Reliance now had a yarn capacity of 70 000 tonnes at Patalganga, as against its licence for 25 125 tonnes.

Each of the second and third plants consisted of a polycon- densation unit and four spinning lines. Bought new, each would cost about Rs 2 billion, and second-hand, about half that. 'Doesn't the enforcement branch want to know where Reliance got the foreign exchange to pay for these?', asked Gurumurthy, ,. . . or will they hide behind the principle of jurisprudence that was propounded by former finance minister Mr Pranab Mukherjee on 16 November 1983 in the case of Reliance when he asserted that "if under-invoicing took place, enforcement has already failed, and we could do nothing about it later".'

In a follow-up article, the Express connected the 'smuggled' yarn capacity with a change in policy announced on 3 July 1986 by the minister of industry, Narain Dutt Tiwarl, whom the newspaper had described as an 'unabashed Reliance admirer'. Tiwari said polyester producers were now free to switch produc- tion between staple fibre (spun from cut lengths of yarn) and filament yarn. Reliance would now be able to churn out more of the high-priced filament yarn without attracting notice. The policy applied to manufacturers with a polycondensation capacity of 30 000 tonnes and a filament yarn capacity of 1 5 000 tonnes-another apparently 'tailor-made' criterion which only Reliance then fitted.

Tiwari, who remained throughout a political career extending into the late 1990s a staunch nostalgist for Indira Gandhi, had also tried without success to wrest control of the office of Controller of Capital Issues in July, arguing that it fitted better with the Department of Company Affairs, which was under his portfolio, than with Finance. This might have rescued the con- version of the E and F Series debentures for Dhirubhai. In addition, the Industry Ministry cleared an application by Reli- ance to expand its PTA plant's capacity from 75 000 tonnes to 1 00 000 tonnes, while sitting on an application from Bombay Dyeing to expand its DMT capacity.

But otherwise, Dhirubhai's friends in the government and Congress Party were ducking for cover. Pranab Mukherjec had- been miserably sidelined by Rajiv Gandhi. At the party's Decem- ber 1985 centenary conference, Rajiv had snubbed him by calling a lunch break during Mukherjee's speech defending Indira's economic policies. Then, in April 1986, Rajiv had summarily expelled Mukherjee from the party after newspapers began reporting a revolt by Indira loyalists against his leadership.

As well as the Indian Express, Dhirubhai also faced attack from another influential publisher, R. V Pandit, whose monthly magazine Imprint carried an extensive account of the Reliance controversies in July 1986. Pandit had worked in Hong Kong for the publisher Adriaan Zecha (later a hotelier) before returning to set up his own magazine and music firm in Bombay, initially with investment from the Wadia family. He made no secret of that, nor that he was a close family friend (and a godfather of Nusli Wadia's children). Pandit brought out no new facts, but shaped the existing accusations into a powerful polemic against Dhirubbai.

Otherwise the business press retained its admiration for Dhirubhai, while listing the charges brought by the Express. After the loan mcia articles, the magazine Business India wrote that 'Serious as these allegations are, the candid reaction in most corporate circles was a "hats off " to Ambani's gutsy genius in circumventing the complicated and often suffocating web of corporate laws and regulations that plague Indian business'. The magazine quoted unnamed merchant bankers and executives praising

Dhirubhai's 'financial wizardry and guts' and 'intricate jugglery of high finance'. The simplicity of his schemes bordered on genius: the man was 'unabashedly' a 'go-getter'.

The Business India writers, Mukkaram Bhagat and Dilip Cherian, concluded that it was 'the commercial banks, much more than Reliance itself, which have been caught on a sticky wicket. For a long time to come, the rights and wrongs of the so-called "loan meia" will be hotly debated. What is really new in the Reliance affair is the scale and the masterly skill with which Ambani had the banks failing over each other, only to reveal the hollowness of an over-regulated system.'

One friend in the press who defended Reliance was the editor of The Times of India, Girilal Jain. Almost alone, the Times had attacked the decision to ban conversion of nonconvertibles, in an editorial headlined 'Not Credible' on 18 June. If the decision had been taken to prevent speculation, it asked, why had the authorities not acted when the price of the debentures started rising six months earlier? My had Reliance been led to believe conversion was in prospect, as late as the 4 June officials' meeting which had given in-principle approval?

But jain was embarrassed when rival newspapers reported that he himself had subscribed to 3000 of the Rs 100 F Series of Reliance in July 1985, and that he had been given a loan by the Bank of Credit and Commerce International for the purchase. The loan was confirmed in a letter to the Reserve Bank of India from the BCCI's Bombay branch on 23 June 1986. Reliance I denied the company had arranged the finance for Jain; its deposits with BCCI later in 1985 had been in the normal course of business.4

Dhirubhai decided to take his defence directly to the public, in a series of 15 full-page advertisements taken out at the end of July in newspapers across India, including the Indian Express.

A Concern for Truth' one was headed: 'When our Chairman told 30 000 investors at our recently held annual general meeting in Bornbay that not a single F series debenture was either directly or indirectly held by his family, it drew the curtain on yet another controversy . . .' Why would it have been necessary to prop up the issue, when it was oversubscribed by Rs 1.3 billion, which had to be returned? Only Rs 160 million had come from corporate investors in any case. And far from increasing control, the promoters had been reducing their holdings. 'By sheer hard work and innovativeness [sic], Reliance had reached the top. Without any rupee borrowings from banks or financial institu- tions, directly or indirectly, for capital expenditure of the new projects.'

Under the heading An Allegiance to Ethics' the company explained that 'the ethics of business' were ground rules that should never be violated if a company was to grow, and these were 'enshrined' in the Reliance boardroom.

> But that does not stop us from being innovative and forward thinking. That does not prevent us from taking the normal business risk. As well as the abnormal one sometimes. To ensure that our investors get the best return on their money. This year we have paid out Rs 25.75 crores [257.5 million] in dividends. The highest in Indian corporate history This does not come from sitting back and complaining about the inadequacies of the market or the system. It comes from a dynamic perception of the role of corporate enterprise: as a catalyst that helps move the nation ahead. But never at the cost of ethics. And this is a fact that everyone who interacts with Reliance will testify to. We value growth but with dignity. We pursue profits but with integrity ...

Under A Matter of Style' the advertisements extolled the company's 'search for excellence' while under A Feel for Tomor- row' they claimed Reliance was among the few companies planning for growth in the years ahead. An Obsession for Technology' said the company's plants had been acclairned by the World Bank and others as the most modern: 'No wonder we chose FTA.' And so on, to the finale, An Occasion for Thanks', emphasising that 1.8 million investors had shares in Reliance.

The Indian Erpress began attacking the Reliance assertions even before they ended, in particular the claim in A Concern for Truth' that not a single F Series debenture had been held by the Ainbanis in any way. Under the headline 'The advertisement that tells a lie' the Express pointed to the bank loans made, for the purpose of buying F series scrip, to companies like Shangrila, Virnal and Mac Investments in which various Ambanis and Meswanis were listed as shareholders. The Reliance advertisement could only be

true 'if the money was borrowed for one purpose but was used for quite another' where then did the money go?

The answer was to come two months later, when the central bank's Rangarajan committee gave its final report on the loan mela. It found that the 43 companies linked with Reliance had borrowed Rs 599.8 million from banks in India during 1985. These loans had not been used for buying F Series debentures after all. However, 'a significant portion of the bank loans had been utilised to sustain the purchases of shares made earlier by substituting credit raised elsewhere by bank credit'. On 30 June 1985, before the loans, the companies had a combined liability on account of share purchases of Rs 380 million. Six months later the liabilities had been reduced to Rs 5 million. The loans had been secure and profitable for the banks, but were not justified in the light of their end use, which the banks had not bothered to check.

Reliance immediately claimed it had been 'cleared of all charges' made by the press over the loan mela. The amount involved was not the claimed Rs 1.0 1 8 billion, and the loans had not been used to prop up the F Series issue or make speculative gains from it. The banks had complied with the guidelines on taking shares as securities, including transfer of ownership.

The Indian Express said Rangarajan had not looked at the loans given outside India by the banks. The Bank of India, the Bank of Oman and Canara Bank had given Rs 440 million to persons outside India as nominated by Reliance, and only for the acqui- sition of the F Series. Add this to the loans given in India and the original figure for the 'loan rnela' was exceeded. In addition, the loans appeared to be in breach of lending rules, since banks in India could lend only against securities already in existence. The report had actually brought out a more serious misdemean- our than the one originally reported: the loans had been used for sustaining the sharemarket. And the borrowing companies had misrepresented to the banks the purpose of the loans.

Dhirubhai had already tried to counter the Indian Erpress campaign by direct rebuttal. On 8 August 1986, his chief New Delhi lobbyist, the Reliance vice-president V Balasubramanian, sent a reply of more than 60 pages to the Express, assembling many of the points already made by the company and elaborating on several of the disputed subjects. 'For six months now your daily and sister publications have been carrying a relentless, campaign of corporate character-assassination against Reliance Industries Ltd,' he began.

> Each one of the stories in the series, and the campaign as a whole, has been false in fact and malicious in intent ... At every stage in this corporate witch-hunting campaign, the [Express] has brazenly violated every journalistic norm and its own professed creed of fair play and truthful reporting by lending its columns to our adversaries and rivals whose political and business interests we have refused to serve and of which your non-joumalist pen-pusher is a self-admitted volunteer member . . .'
>
> T'he campaign has sought to destabilise Reliance by under- mining its investors' confidence, creating distrust in public mind [sic], and sowing seeds of suspicion in the minds of deci- sion-makers about Reliance. The witch-hunting campaign has been aimed at creating a psychological environment of hostility against Reliance, and an ambience among decision-makers and parliamentarians that can subserve [sic] the interests of the busi- ness rivals of Reliance and other vested interests. The next im- mediate target of your campaign will obviously be to 'sabotage' our most prestigious PTA project, which is introducing the most advanced and latest third generation technology in its area of operations and which on completion will save the national exchequer an outgo of Rs 800 million a year by way of total import substitution ...

Some of the rebuttals were valid enough. The non-resident share acquisitions were unlikely to turn into a foreign exchange drain, as few such investments were liquidated and, if they were, capital gains tax of 50 per cent or 65 per cent would apply, and then the investors would suffer from a less favourable exchange rate due to the rupee's constant depreciation over the years.

Certain other points were disingenuous: Balasubramanian said that conversion of debentures would lower the foreign exchange outgoings, as much less would be paid in dividends than in interest. He did not discuss sale of the shares after conversion. As for the ownership of the offshore companies, non-resident Indian control had been verified to the central bank's satisfaction. As for the August 1982 lifting of

the Rs 100 000 investment limit, 'It is well known that the intimation of removal of mone- tary ceiling was sent to the [Reserve Bank] by the Finance Ministry nearly six weeks prior . . .'

If Reliance had benefited from various industrial policies, it was because its performance had been better or it had done its 'homework' well beforehand. Other companies not mentioned by the Express had also received licences for products in competition with Reliance. Licences were given under several ministers, not one particular person (an obvious reference to Mukherjee).

The figures on the company's monopoly power were much lower than those in the Express series. Instead of 18 to 62.5 per cent of national licensed capacity, Reliance's licensed capacity ranged from 7.5 to 34.84 per cent. The letter did not go into Reliance's capacities as a proportion of national installed capacity, which might have been closer to the Express figures.

On the allegation of smuggling in a new polyester filament yarn plant along with its declared polyester fibre plant, Balasubramanian called this 'absurd and [a] figment of imagination of the writer', which 'trespassed A the limits of decency'.

Equipment was imported against a list attached to the relevant capital goods licences, and the contents verified by Customs. '. . . what the writer is alleging is incompetence of the government authorities who scrutinised the import and cleared [it],' he said. It was a 'well-known fact' that the output of synthetic fibre plants could be much higher than licensed capacity, depending on efficiency and the denierage (thickness) of the yarn. No company would smuggle in a plant because it would lose the benefit of depreciation, investment allowances and other deductions against income. 'Reliance Industries Ltd belongs to 18 lakh [1.8 million] investors and no management would be foolish enough to inject funds of the magnitude of Rs 100 crores [1 billion] for bringing in a plant, the benefit of which has to be shared with the investors, the government, and the consumers of the end product.'

Balasubrarnanian's letter was just more ammunition for Gurumurthy, who responded on 19 August under the headline 'The answers that answer nothing'. Setting out his original charges in one column, he listed the Reliance replies against them alongside, and in a third column his conunents on the replies. ,Against many of the accusations, he noted, Reliance had made no response at all. In others it had been selective in what it addressed. Where his articles were attacked, Gurumurthy stood by his major points.

Three weeks later he was back on the attack. In a three-part article over 9-11 September, he alleged that with the connivance of officials in technical departments the new PTA plant at Patalganga included plants for producing the feedstocks directly required without seeking separate licences for them. Instead of using the petroleum derivative paraxylene as feedstock, Reliance would start with the next product up the petroleum chain, napththa. 'There is no way of producing M from napththa without first producing paraxylene,' Gurumurthy noted. 'It is like saying that a bicycle is made from iron ore.'

As well as a paraxylene line, Reliance was installing its own plant to extract benzene, another napththa derivative used to make the detergent ingredient LAB, which the company was also producing at Patalganga. To secure the napththa it needed, Reliance was lobbying to have output dedicated from the gov- ernment-owned Bharat Petrochemicals Ltd refinery in Bombay and sent to Patalganga through the refinery's pipeline. Bharat Petrochemicals' own plans to make paraxylene should be dropped because of 'environmental' concerns, Reliance had suggested in a letter to the Department of Petrochemicals.

In addition, the PTA plant included a 25 000 kilowatt power plant, which Reliance was later to explain as a 'gift' included within the overall plant cost by the British suppliers of the PTA plant, the engineers John Brown Ltd, even though the generator was of German manufacture.

By that time, Gurumurthy's report on the 'smuggled' yarn capacity at Patalganga had led to an official inquiry On 20 August a team of six officials and engineers from relevant ministries arrived at the Reliance factory to see exactly what machinery was installed. They looked around, and asked some questions to which answers were demanded by the next afternoon. According to a report on the mission by its leader M. S. Grover to the Ministry of Industry on 10 September, 'Messrs Reliance either did not give the information timely or the information given was inadequate'.

Reliance executives were disputing that any precise tonnage could be assigned to a given plant. With constant meterage (length of fibre produced) almost any tonnage could be produced by varying the denierage (thickness) of the filament, it main- tained. In its applications for licences, Reliance had made certain .denierage specifications. At no stage had the government told it of any policy decision that the controlling factor was the tonnage.

The officials met Reliance representatives a second time at the Customs House in Bombay on 22 August. The answers were still not satisfactory, and several other follow-up meetings were held in New Delhi, leading to a presentation by Reliance on 1 September. The officials were still unsatisfied: Reliance refused to give precise specifications of equipment because it was 'proprietary knowledge'.

The committee asked Reliance at least to explain how the capacity of the PTA unit's air compressor-a component that gave a clue to the overall plant capacity-was nearby 50 per cent greater than needed for the licensed plant, and how the polyester filament yarn plant came to have 12 spinning lines instead of the eight cleared for import. On the first point, the officials appeared to have been left uncertain. On the second, Reliance said the four extra spinning units were made from disassembled parts shipped with the four second-hand spinning lines brought in as part of the 'balancing equipment' in 1984.

In their conclusions, the officials knocked down the denierage arguments about capacity, and homed in on the one fact that was obvious to the eye. Instead of the eight spinning lines that Reliance was cleared to import, its factory was operating 12 lines. Nowhere in any of the documentation produced by Reliance could any reference be found to this additional capacity. As for the complete filament yarn plant, the inspectors rated its capacity at between 55 000 and 63 000 tonnes a yea,-more than double the licensed output of 25 125 tonnes.

The report, crammed with numbers and dry engineering detail, was passed to the Customs Service, which then looked back through the records of equipment imports by Reliance. It was to lead four months later to Bombay Customs, so often "pathetic to Dhimbbai in the past, handing Reliance a show- cause notice alleging the company had smuggled in spinning machines and undeclared industrial capacity worth Rs 1.145 billion. The Customs put the duty evaded at Rs 1.196 billion, and invited Reliance to ask why this should not be levied. In addition, the company faced the possibility of fines up to five times that amount and confiscation of the smuggled goods, while individual executives could be prosecuted for smuggling.

If huge steel structures that occupied 20000 square feet of factory space could be smuggled into India, what could not?, Gurumurthy was to ask. Why not guns? Tanks and missiles even? 'Compare the case with which it was accomplished with the torment of someone landing in India with a few saris in his bag for his pestering wife, unable to make up his mind on whether to move towards the green channel or the red channel,' he wrote.

With this homely touch, Gummurthy rounded off what must rank among the most powerftd examples of investigative journalism anywhere. For the time being, at least, Gurumurthy had certainly closed the green channels for Dhimbhai Ambani.

SLEUTHS

To see Bhure Lal on his evening walk around New Delhi's Lodhi Gardens was to know at once a man not easily diverted from his objective. Military-style moustache always neat, eyes narrowed on some distant point ahead, arms swinging, Bhure Lal attacked his exercise routine with the intensity of a soldier on a desperate forced march to lift a siege. Friends among the senior bureaucrats who favoured the Lodhi circuit struggled to keep up with his blistering pace.

The military bearing was no affectation. Bhure Lal had joined the Indian Army on a short-term officer's commission soon after the Chinese attack along the eastern borders in 1962, and saw action against Pakistan in the 1965 war. He retired from military service with the rank of captain in 1970 when he won a place through examination in the elite Indian Administrative Service. After several district posts in Uttar Pradesh, he became a secre- tary to V P Singh when he was the state's chief minister. At the end of March 1985, just after Singh as Rajiv's finance minister had declared his war on the black economy, Bhure Lal was made Director of Enforcement in the Ministry of Finance, responsible for finding transgressions of India's highly detailed and restrictive exchange control laws. By early 1986 he too had joined the attack on Dhirubhai.

The Director of Enforcement enjoyed wide discretionary powers about whom he investigated, and was allowed to operate with minimal circulation of reports outside his own office to avoid compromising arrests and search raids. In addition, Bhure Lal had the confidence of his immediate superior, the Revenue Secretary in the Ministry of Finance, Vinod Pande, who in turn was a confidant of V P Singh himself. It was a 'closed circle that frustrated Dhirubhai's network of sympathetic officials within the Finance Ministry, among whom many fellow bureaucrats and politicians placed the able and ambitious head of the ministry, the Finance Secretary, S. Venkitaramanan. 1

Bhure Lal made his first foray overseas to pick up Dhirubhai's hidden financial trails in May 1986. He went to London to look into the ownership of the Isle of Man companies, but found a baffling wall of secrecy in the tax havens. He travelled to Leicester in an attempt to persuade the Shahs to talk, but arrived a few days after the family head, Krishna Kant Shah, had died. His attempt to prosecute the Kirloskar group over its alleged front company in Germany had also failed because the suspect com- pany's financial statements could not be sequestered.

The Enforcement Directorate also raided the Bank of Credit and Commerce International in Bombay, and brought charges against its local general manager and five other staff under the special law against smuggling of currency, which went by the acronym COFEPOSA. Bhure Lal met the head of the BCCI's Asian operations, Swalch Naqvi, and offered to go soft on the bank's staff provided it.supplied A details of Dhirubhai's suspected transactions to fund the purchase of Reliance shares by the offshore companies. Naqvi agreed, but reneged once back in London and asserted that as a Luxembourg-domiciled bank the BCCI was not bound by Indian law. The BCCI was shut down by the Bank of England and other western central banks in 1991 an-tid allegations that it was a major money-laundering operation for drug traffickers.

To clinch a prosecution under the Foreign Exchange Regulation Act, the enforcers needed to produce evidence of the overseas 'leg' of a havala transfer. Bhure Lal became convinced that his intelligence agency would have to tap non-official sources to obtain the breaks it needed to build a case. But the private investigation agencies he found in London were too expensive for his office to hire out of its discretionary funds. Requesting a special budget would have blown the cover completely on his inquiries.

India's own embassies in foreign capitals were worse than useless. In a later note on his 1986 inquiries, Bhure Lal complained that any information given to Indian missions was usually passed on to the suspect. When the Enforcement Directorate had sought information from the Indian Embassy in Washington about suspected secret commissions paid by the American grain trading giant Louis Dreyfus Corp to the New Delhi industrialist Lalit Thapar's Balarpur Industries, the embassy had telexed a vigorous complaint back to the Ministry of External Affairs.

The enforcer discussed his dilemma in September with his superior, Revenue Secretary Vinod Pande, who in turn raised the problems during his frequent meetings with V P Singh. The finance minister gave his clearance to the proposal to use foreign investigating agents, on condition that any payments be

made after receipt of evidence. The choice of the agents and other operational matters were left to the Director of Enforcement.

It was left to Gururnurthy to point Bhure Lal towards the help he needed. The two had met first in July, in the coffee shop of New Delhi's Janpath Hotel. Thereafter through the second half of 1986 they had had informal meetings when Gurumurthy was in the capital, in the Taj Mahal hotel's coffee shop, in Nehru Park and then at the Indian Express guesthouse.

Gurumurthy had also been in London in May, on a separate visit. With Goenka's resources behind him, he had not been deterred by the expense of British sleuths. But the inquiries by King's had come to an impenetrable wall of secrecy in Panama and Dubai. His attention was turning to the United States where initial inquiries had not unearthed much evidence.

Parallel with his published articles, Gurumurthy had circulated a stream of detailed position papers to concerned officials and politicians about the various allegations against Reliance. In some cases, these papers made recommendations for corrective action- some of which were taken up, as with the banning of conversion of nonconvertible debentures---or for further investigation. ,

Nusli Wadia had also kept up his contact with Rajiv Gandhi about Reliance. The two got on well: they were of similar age, each had a Parsi parent, and both were considerably more cosmopolitan than their everyday cohorts. Early in 1986, the prime minister agreed that Reliance should be targeted. As a picture emerged more fully of Dhirubhai's operations, Rajiv also agreed that the case of the smuggled factories, and the disguised payments that must have been made for them through illegal havala channels, were the most vulnerable points on which Dhirubhai could be nailed.

Rajiv wanted to hear first-hand from Gurumurthy the full story Accordingly, arrangements were made through Wadia for a series of meetings over a week around the end of August, just before the prime minister was to travel to Harare, the Zimbabwe capital, for a gathering of Commonwealth heads of government. In the event, Rajiv did not attend the meetings and had the veteran Congress politician and Gandhi family loyalist Mohammed Yunus speak to Gurumurthy instead.2

In late Septemben Nusli Wadia was also making inquiries while on a visit to New York. The American-based Praful Shah, who had been listed as a shareholder in some of the Isle of Man companies, remained a mystery. Seeking a way of pressuring Shah to talk, Wadia consulted a New York accountancy firm called Kronish, Lieb, Weiner &- Heliman to see if Shah had been breaking any American laws. A partner advised that an American resident such as Shah would have had to declare any income derived from the investment in his name, whether or not it was distributed to him, and that the sale of his shares would be a 'taxable event'.

In October, Gurumurthy made a second trip to London, where he was given the name of an up-and-coming private investigation agency based on the outskirts of Washington, the Fairfax Group. The agency had been founded in 1983 by a former government anti-fraud investigator named Michael Hershman, then 41, who had worked with the US Senate inquiry into the Watergate scandal and had been deputy auditor-general with the US Gov- ernment's Agency for International Development, visiting India several times on AID business. The Madras accountant went on to Washington, and spoke to Fairfax on behalf of Goenka.

By then, Gurumurthy had published his articles on the 'smuggled' filament yarn capacity, and it had become clear that the counter-parties to any secret payments by Reliance would have been either the suppliers of the equipment, principally Du Pont, or the American eneincerinty firm that arran d the purchase and ge shipment of second-hand plant, Chemtex Fibers Inc. Hershman pointed out that he would need an authority from the Indian Government to get the companies to divulge material they would otherwise classify as commercial in confidence.

Hershman was about to make a visit to Korea, where the government had retained Fairfax to advise on security for the 1988 Olympics in Seoul. Gurumurthy asked him to extend his trip to India, which he did, arriving in New Delhi early on 15 November and checking into the Oberoi Hotel. Over the three days of his stay, Hershman was introduced by Gurumurthy to Bhure Lal, and reached agreement to work for the Government of India in return for a contingency payment of 20 per cent of any moneys recovered-a

reward in line with standard payments to informers by the Enforcement Directorate, though the amounts involved were potentially huge in the Reliance case.

The three subjects for investigation were Du Pont and Chemtex, regarding the supposedly smuggled yarn plant, and the Bank of Credit and Commerce International about the financing of the non-resident investments in Reliance. On the BCCI, Hershman started making inquiries in London during a stopover on his way back to Washington, and was soon made to realise he was - on dangerous ground. A tough-looking young Sikh knocked on the door of his hotel room, and warned him against asking questions about BCCI.

It was not until 21 December that Bhure Lal arrived in New York to get down to work with Hershman, who came to his hotel along with his vice-president at Fairfax, Gordon McKay. On 22 December they went in to see joseph D. Bruno, head of the Criminal Investigation Department in the Internal Revenue Ser- vice. Bhure Lal sought from Bruno whatever help could be provided to trap certain well-known operators of the Indian havala trade providing dollars in the United States in return for rupee payments in India-which Bruno agreed would be illegal in the US if they exceeded US$ 10 000 and had not been cleared under American foreign exchange laws. Bhure Lal asked for help on the Dreyfus case, involving the alleged US$3 million cornrnis- sions on supplies of cooking oil to India's State Trading Corp over 1982-86. And he followed up on the same lines as Gurumurthy and Wadia in the Reliance puzzles.

Bhure Lal detailed the involvement of the New York legal clerk Praful Shah in the Isle of Man companies, supplying the company names and the amount of dividends and interest on debentures that should have accrued to him from Reliance. This income had not been declared to US tax authorities, Bhure Lal said. Praful Shah did not have the resources for the investments put in his name, and had claimed to he the nominee of Krishna Kant Shah in Britain, who had died in May 1986. But nor was K. K. Shah rich enough, and he had not declared his investments to the UK tax service. The real investor was suspected to be an Indian who siphoned off funds in a clandestine manner and got them recycled through the Shahs, thereby evading payment of taxes in India. Praful Shah re-fused to disclose his source of funds, and Bruno was urged to investigate.

The Indian official then mentioned the role of BCCI, through its London operations, in the Isle of Man investments, citing the names of senior BCCI executives including Swaleh Naqvi, and a Mr Abidi (probably referring to the BCCI's founder, Agha Hasan Abed!). The BCCI had provided much of the funding to ten of the Isle of Man companies over 1982-83, along with the European Asian Bank in three cases, channelling the loans through the company facilitators in the island tax haven. The loans had been repaid in New York on 14 June 1985 by credits to the two banks. Who had made the payments, and how? Who had stood guarantee against the loans by the two banks?

Along with Gordon Mckay and a lawyer from a Delaware law firm named J. E. Liguori, Bhure Lal went on to the Du Pont headquarters at Wilmington to tackle the chemicals giant. The trio were met by a director, E D. Oyler, and a legal adviser, Geoffrey Gamble, and handed over a sheet of 15 questions about payments for the purchase of plants and technology by Reliance, and a list of 25 offshore companies including many registered in the Isle of Man to see if these had been party to any transactions.

A week later, on 30 December, Gamble called Bhure Lal and handed over Du Pont's reply to the questionnaire. Bhure Lal was deeply disappointed in the answers, which he felt had flicked the ball on to Chemtex and given Du Pont itself some escape clauses. 'To the best of our information and belief at this time, the capacities of the plants are as indicated in the contracts which were approved by the Indian Govt,' the document said. '. . . To the best of our information and belief, no second-hand equipment has been sold directly by Du Pont to Reliance from Canada, the United States or anywhere else.'

Was any other equipment procured by Chemtex?-'To the best of our information and belief, no.' Did Reliance pay amounts to Du Pont prior to approval from the Government of India other than from India and were those payments adjusted by Du Pont after receiving money from India after approval?-'No.' Did Du Pont have any business relations in India with [25 names of Isle of Man and other investment companies]?-No reply was attached.

Bhure Lal had found most of the people he wanted to meet in Chemtex to be out of town over the Christmas-New Year period. He got through to an assistant legal counsel, who suggested he call the

company offices on 2 January, Bhure Lal's last day in his authorised tour, already extended once. He rang, and found the office closed.

After returning to New Delhi on 3 January 1987, Bhure Lal continued to correspond with Du Pont by telex and letter, with Fairfax acting as his agents in Washington. He reported verbally to Revenue Secretary Vinod Pande, who was busy with budget preparations and did not want to hear details. On 29 January, the Du Pont lawyer Gamble gave five more documents to Mckay. Bhure Lal was again disappointed: the papers concerned agree- ments made in 1981 for the original polyester yarn plant at Patalganga, not the additions made over the following five years. On 11 February, he wrote again to Gamble with eight further questions.

The enforcer had meanwhile met an executive vice-president of Chemtex, Jullo J. Martincz, who had come out to India around 21 january-to avoid dealing with the Fairfax agents, Bhure Lal suspected. Martinez promised full cooperation, but his reply sent on 2 February failed to satisfy Bhure Lai, who wrote back: As I told to you over phone, I was disapppointed with your inadequate response and cannot help feeling that your letter conceals a distinct unwillingness to come out with correct facts, your assurance of cooperation notwithstanding.'

Bhure Lal enclosed a six-page list of queries about the equipment supplied by Chemtex to Reliance from Du Pont's Hamm Uentrop Plant in West Germany. He wanted details of payment, copies of documents such as invoices, certificates about the condition of the machinery, and a detailed list of items. How was it, he asked, that the three spinning units originally supplied by Chemtex (for a nominated 10 000 tonnes a year of polyester filament yarn) had resulted in actual production of 18 000 tonnes, when the additional nine units gave only a further 1 5 000 tonnes in installed capacity and 6000 tonnes in actual capacity?

By that stage, government engineers had confirmed the presence at Patalganga of machinery imported without licence. The Ministry of Industry had accepted the Reliance explanation that four of its spinning units had been 'split' into eight units 'to suit layout requirements' but the Finance Ministry had not been convinced. After further inspections at Patalganga in December, the Customs Directorate issued its show-cause notice on 10 February 1987 charging Reliance with smuggling and under-invoicing plant worth Rs 1.14 billion and evading duty of some Rs 1.2 billion. Who had paid for the smuggled machinery and how?, Bhure Lal wondered. In addition, who had paid Du Pont the royalties due for extra polycondensation capacity and spinning lines which amounted to something between US$6 million and US$12 million?

Du Pont and Chemtex could not be forced to answer, unless Fairfax found some breach of American law in the transactions. But they might find themselves blacklisted in the world's second most populous country, where levels of textiles and chemicals consumption were extremely low. Indians were quick to take offence at any implied disparagement of their sovereignty by foreign multinationals, and the disaster at the Union Carbide plant in Bhopal, where thousands of Indian residents had been killed or maimed by a toxic gas leak in 1984, had hardly helped the image of American chemical companies.

While the law enforcers were closing in on his foreign transactions, Dhirubhai was under increasing pressure on the home front. The successive accusations in the Express and the mounting load of show-cause notices against Reliance had allowed the bear operators in the Bombay sharemarket to get the upper hand for the first time in several years. Led by the veteran broker Manubhai Maneklal, the bears pushed down the Reliance share price from its peak of nearly Rs 400 towards Rs 200 at several moments during the year.

In spite of the defiant message given in June by Dhirubhai before his assembled shareholders at the Cross Maidan, the company was undergoing its first profit squeeze since it went public in 1977. The ban on conversion of its E and F Series of debentures had swollen its interest bill, and the removal of the anti-dumping duty on polyester yarn and additional duty on PTA imports had sharply cut the profit margins on its products.

Dhirubhai desperately needed more cash in the company. An attempt to float a new finance and leasing affiliate, Reliance Capital &- Finance Trust Co, at a substantial premium had been rejected by the Controller of Capital Issues. He had proposed that Reliance Capital &- Finance Trust, incorporated in

March 1986, he listed at a Rs 25 premium on its Rs 10 shares-a virtually unheard-of privilege for a company with no track record of trading, let alone profits. The issue would have raised Rs 1.25 billion in equity which, given the leasing nature of its business, Dhirubhai would have been able to gear ten times by issuing high-interest debt instruments to the public. The proposed pre- mium was rejected in August, and Reliance Capital was to remain unlisted until April 1990, when its shares were offered at par.

The answer was the Reliance G Series of fully convertible debentures opening on 29 November 1986. In June, the directors had proposed an issue of 20 million debentures of Rs 200 each to existing share and debenture holders. This would bring in Rs 4 billion, and with a 25 per cent retention of any excess subscriptions a total of Rs 5 billion-making it India's biggest ever issue at that time. Each debenture would he convertible into one Reliance share on 30 June 1987, earning 13.5 per cent interest until then. Within a little more than six months from a successful issue, Reliance would once again transform debt into massive new capital.

By the time the extraordinary general meeting that was needed to approve the issue convened on 28 August, the premium on conversion had been pared down in the light of the less favourable market. The company now proposed an issue of 32 n-dillon debentures at Rs 125 each. Reliance would raise the same total but would have to dilute its share base a lot more. The share- holders accepted Dhirubhai's forecast of increased profits for 1986. Half a dozen of their fellows criticised the sustained 'vilification' of the company among them a former deputy governor of the Reserve Bank of India, R. K. Hazarl, and one Bharat Shah, identified to reporters as a 'non-resident investor from West Asia' but in fact Dhirubhai's own Middle East Co- ordinator who had figured in the F Series bank loans.3

Dhirubhai could still run a good meeting. But the question was: did the Ambani magic still work in New Delhi and in the market?

The answer to the first part was no: on 27 October the Controller of Capital Issues eventually cleared the issue, but only on condition that each debenture would convert to two shares. In other words, the premium on the basic Rs 10 share had been brought down from Rs 190 to Rs 62.5. Even then, it was going to be a tricky issue to market. Income tax authorities raided sharebrokers in mid-November, causing a brief shutdown at the Bombay exchange, and locking up large volumes of share certif- icates for inspection. Several other big issues were also planned for December, in a market where the bears were dominant.

Dhirubhai decided to go in quickly and boldly. At a press conference on 11 November he admitted the polyester market was bad. 'But as far as Reliance is concerned, there would be no adverse impact on the company's profitability, which will be higher than last year,' he said.4 On 19 November, Reliance began another series of bold advertisements in the press across India. 'What can Reliance give you for Rs 145 that nobody else will?', it began.

'. . . As you probably know, a Rs 10 Reliance share today is worth Rs 225 in the open market. So nobody will sell you a Reliance share for less. Excepting Reliance. That's what this advertisement is all about. Another profitable opportunity from Reliance. A convertible share issue which offers you not one, but two Reliance shares for an unbelievable price of Rs 145 after conversion . . .

' The series went on under the headline 'What can you say about Reliance if . . .' with a different facet of the company picked up in each: that it was the third largest in the private sector, now diversifying into petrochemicals; that in nine years its sales had multiplied nine tirnes, its assets 42 times and its profits 24 times; and so on. Another ad showed a husband and wife wondering whether to buy a new refrigerator or invest in the Reliance bonds. Why not do both?, was the message: take the profit on sale of the shares after conversion and then buy the fridge.

Directed by Dhirubhai, and executed by a dozen leading stockbrokers--chief among them Nimesh Kampani of J. M. Financial &- Investment Consultancy Services, and Vallabh Bhansall of Enam Financial Consultants-Reliance had some 15 000 of its retail outlets, wholesalers and suppliers set up as collection centres for subscription forms, some of them formally appointed as sub-brokers. Scooter-rickshaws fitted with loud- speakers cruised the streets of Bombay and other cities, spruiking the issue. In Ahmedabad, Reliance had subscription forms scat- tered from a helicopter over the suburbs. The big American stockbrokers Merrill Lynch were engaged to market the deben- tures to non-resident Indians worldwide.

On 26 November, three days before the issue opened, the Indian Express began a counter-campaign. Under the cross-heading 'Reliance G series debentures-I' which promised yet another multi-part criticism, the main headline called the Reliance adver- tisements A disinformation campaign to sell bonds'. The glib lines were typically enticing to Reliance share and debenture holders. 'But the Reliance family member-its shareholder-is torn between the tempting promises from Reliance and his own experience of the recent past. He knows that he must think along practical lines, and distinguish the myth &om the reality. He now suspects that the tailor-made situations of the past, in which Reliance jumped the queue with impunity and flourished through its stage management of the goverrunent, are over.'

Just look at the refusal of permission to convert the F series bonds, or the removal of the Rs 15 000 a tonne dumping duty on polyester yarn. The impact of these decisions on Reliance's finances had not been told to shareholders. The company had gone into disinformation instead. On 27 June 1986, it had claimed that its working results for the first five months of 1986 were better than for the same period a year earlier. Yet the obligatory disclosures in the prospectus for the G Series showed a vastly different picture: profit for the first six months had been Rs 225.6 million as against Rs 630 million for the first half of 1985 and Rs 610 million in January-june 1984. The second half of the year would be even worse. Even the claimed first-half profit was suspect, as the company had counted discounts given to its wholesalers in the form of credit notes as part of sales figures. 'The days of super profits are over,' said the Express, 'and Reliance must behave like any other company standing in the queue. Political clout is no longer a credit.'

An attempt was made to silence the newspaper. Later, on 26 November, one Abdul Rehman Hussein Malkani, who said he and his family owned Reliance shares and debentures worth Rs 4 millon, petitioned the Bombay High Court to restrain the Express from publishing further articles on the G Series issue. Assisted by leading advocates, Malkani claimed the first article contained distorted and incorrect information-the first-half profits given for 1985 and 1984 were actually the full-year figures- causing damage to Reliance and its shareholders. Justice N. K Parekh obliged with an interim injunction.

The Express and its editors immediately applied for a lifting of the gag order. Led by the redoubtable senior advocate Ram Jethmalani-later to enter parliament's upper house against Congress-the Express undertook to correct immediately any factual errors such as the profit figures (included by oversight), and would publish any refutation of reasonable length given by Reliance within two days of receipt. The articles were justified and fair comment on matters of public importance. Malkani's counsel argued that the lawsuit was based not on defamation but on the tort of injurious falsehood affecting the property rights of his client-though indeed the Express could hardly claim fair comment based upon incorrect allegations of fact. Reliance, which had joined the case, argued it was a matter of defamation.

On 28 November, Justice Parekh lifted his order. Malkani's attack on the grounds of injurious falsehood had undercut his case for restraint on publication. 1-lakh said that 'the public's right to know the truth is paramount and outhalances the plaintiff's [Malkani'sl right to protect his property rights.' Any harm caused by further publication could be righted by monetary compensation, if proven. But the undertakings given by the newspaper provided the opportunity for any wrong to be set right forthwith.

The next morning, the Express resumed its series, adding a correction to its first article without comment or apology. (In fact, the figures were still wrong: the net profit in 1985 had been Rs 713 million.) Reliance's business success came not from its factories but from its political clout in New Delhi. Its shareholders had come to believe there was nothing the company's lobbyists could not achieve. The help given by New Delhi had scared away the bears. The reasons for the run-up in the Reliance share price to Rs 393 in June 1986 had been exposed by the Rangarajan report into the loan mela: speculative pressure had been generated by Reliance itself.

The share price was now on its way down to reality. Knowing that the flow, of funds for Reliance's price support had been cut, stockbrokers close to Reliance had begun to borrow badla (carry- over) fmds even at interest rates over 36 per cent in order to postpone deliveries. The company had tried to give the impres- sion that it was back in favour-by virtue of the approval of the G Series, and a meeting between Dhirubhai and Rajiv Gandhi in October-but these were formalities. The issue was always going to be cleared, to fund the new projects licensed over 1984-85. The price was the real issue.

The Express also pointed to some novel features in the G Series. Unlike those in the earlier issues, the rights of existing shareholders to subscribe could be renounced. This was probably because the management's front companies, already having to pay back their loan mela borrowings, would be hardpressed to take up their rights. It was curious that the subscriptions reserved for the public would open on 4 December and close on 24 December, but the rights issue would stay open for 45 days. Reliance could thus get the public moneys in, and sell the rights of the front companies later when it would not matter if a drop in the share price resulted. Inevitably, it seemed, the market price of the debentures would tumble.

A separate article in the Express claimed that, while millions of subscription forms were being made available through Vimal textile showrooms and other outlets, copies of the prospectus were in very short supply. Investors were not being given the detailed information they needed for an informed decision.

Then it was Reliance's turn to be hit by a barrage of litigation. In the southern city of Hyderabad, on 2 December, the Andhra Pradesh High Court made an order halting the G Series offer to the public, on a lawsuit filed by one P Murali Krishna, a local holder of F Series debentures. Murali Krishna said the Controller of Capital Issues had erred in removing the rights to the G Series which Reliance had originally proposed be attached to existing debentures as well as to shares. It was not clear what the issue was for, or what was a fair value of the underlying Reliance shares, which had been fluctuating wildly. The existing debenture holders had already suffered enough: the new issue was a fraud on the public.

In Bombay, Ajit Jayantilal Modi and two other Reliance shareholders argued in the Bombay High Court before the same Justice Parckh that the G Series issue, as it was eventually approved by the government, did not have the valid approval of Reliance shareholders-since it was greatly amended from the proposal put to the 28 August extraordinary meeting. In addition, the prospectus and advertising contained false information. And in a city civil court in Bombay, a sharebroker named Arunkumar Jajoo obtained a stay order on the G Series, over alleged violations in the way Reliance had given prospectuses and subscription forms to brokers and set their commissions.

On 3 December, Reliance obtained an order from the Supreme Court in New Delhi which naified the Andhra Pradesh court's stay on the issue, giving the company more time to argue its case in the lower court. In Bombay, Justice Parekh declined to give the three petitioners there any interim restraint order, and adjourned their case for two weeks. (Two days later, on 5 December, the three shareholders dropped their lawsuit.) The civil court meanwhile lifted its stay on the issue. It had been a busy couple of days for the legal profession.

As the public part of the issue opened on 4 December, the Indian Express carried Reliance's reply to its articles on its front page. The letter, written by the New Delhi-based vice-president, V Balasubramanian, made much of the mistaken figures in the first article and disputed the basis of the conjectured absence of real profits in 1986. It was part of a 'motivated and malicious mudslinging campaign' to damage the G Series issue. The newspaper ran its own commentary alongside, attacking the company's response as 'not enlightening'.

The Reliance share price continued to fall, as word spread of the seriousness of the customs and excise evasion inquiries, touching a low point of Rs 179 on 25 December. On 5 December, the Central Excise and Gold (Control) Appellate Tribunal dis- missed an appeal by Reliance against the show-cause of October 1985 alleging evasion of Rs 273 million in excise. The case could go on to adjudication.

But the share price then began to climb upwards, partly as a result of a bold plan executed by a young recruit to the Reliance finance section. Anand Jain, then 29, had been a schoolmate of Mukesh Ambani before qualifying as an accountant. He joined Reliance at the beginning of December 1986, when Dhirubhai was persuaded to let him take over management of the sharemarket operations from his old colleague Chandrawadan ('Mama') Choksi. Jain managed to get hold of confidential Bombay Stock Exchange records giving the reported positions of Bombay's big stockbrokers in Reliance shares. In many cases, these were at wide variance with the positions Reliance knew to be the case from its own registry Jain threatened to expose the brokers, bringing down heavy penalties on their heads, unless they immediately squared their positions by taking delivery of Reliance shares. The rout ended, and many of the bears suffered ruinous losses. Jain, who later went on to head the Reliance Capital &- Finance Trust arm of the group, had won his spurs. He soon became a replacement for Dhirubhai's late nephew

Rasikbhai Meswani as the company's chief troubleshooter and dealmaker, the inside track to getting transactions and orders from Reliance. By the mid- 1990s, he was being referred to around Bombay as the 'third son' in the Ambani circle.

By early February 1987, the G Series issue could also be claimed a dazzling success. The block of debentures reserved for the public, worth Rs 1.32 billion, won subscription applications of Rs 4.94 billion in total. The Rs 880 million reserved for non-resident Indians had Rs 1.5 billion offered. Together with the Rs 1.6 billion subscribed by shareholders and Rs 200 million by staff, the total money subscribed came to Rs 8.24 billion. Dhirubhai thus had Rs 3.24 billion more than the Rs 5 billion he could keep. Even with a 'rapid refund' scheme for unsuccessful applications, he could keep the money to play with for at least two months.

In addition, to ease the pressure on the Reliance share price, the company's share registry, Reliance Consultancy Services, sat on the rush of share transfer applications lodged just before the 29 November cut-off date for the G Series rights attached to shares. According to stock exchange rules, ownership transfers were to be made within one month of delivery, but by late February 1987 investors and brokers were screaming that some 3 million shares were still in limbo. By keeping these out of the market, the company created a scarcity of floating shares that helped keep the price rising from the late-December nadir.

The financial pressure was off, temporarily. Reliance had the funds to complete its PTA and LAB plants, which were way behind schedule (the polyester staple fibre plant had opened six months late, in July 1986), and to refurbish its image of tech- nological prowess. And Dhirubhai could still claim that the small investors believed in him, in their millions. Reliance now claimed the largest shareholder base of any company in the world: 2.8 million.

But the fight against the bears in the stockmarket over 1986 to stop a freefall of his share price had drained his personal reserves, the parallel fund that had sustained the Ambani magic. Huge amounts had been spent on counter-publicity to the Indian Express and efforts to block his political critics. One senior broker close to Dhirubhai at that time estimated that Dhirubhai had lost about Rs 5 billion by early 1987, not including the fall in value of his sharcholding.

Dhirubhai would also have known by then that the Indian Express had been right in its forecast of a drastic profit decline for Reliance, its first since listing. In fact his forecast of a profit rise for 1986, made less than two months before the financial year closed, in retrospect looked puzzling. The annual results for 1986 that were published in April 1986 showed net profit had dropped to a mere Rs 141.7 million, lower even than the first half profit the G Series prospectus had reported, and an 80 per cent fall from the 1985 profit.

And then there was the unshakeable enforcer Bhure Lal, eyes fixed ahead, who had quickly dismissed an attempt at a concil- iation by Mukesh Ambani at a meeting granted during the year. By January 1987, Dhirubhai would have been hearing back from his contacts in Du Pont and Chemtex, and the dilemma his deals had put them in. The Customs Service was about to issue its show-cause notice on the allegedly smuggled yarn plant in February Dhirubhai had some more financial breathing space, but he was still in a closing trap.

LETTING LOOSE A SCORPION

Dhirubhai Ambani needed something more. He needed to unlock the doors in New Delhi that had suddenly become closed to him in 1985.

The master key was obviously Rajiv Gandhi-but how to win over a young man who clearly regarded Dhirubhai as the epitome of everything that had been wrong with the Licence Raj and the Congress Party?

Although he had grown up in the household of prime ministers, Rajiv had been born without the ruthlessness that distin- guished Indira and her other son Sanjay. Rajiv was interested in technology and nature, a keen amateur photographer and home computer buff, but seemed to lack the mental drive to push himself to higher achievement. He had failed to complete his degree in mechanical engineering at Cambridge. And until he was drafted into the party by Indira after Sanjay's death, he had been supremely happy flying the second-echelon turboprop aircraft in the Indian Airlines domestic fleet.

Even after five years in the prime ministership, he left some acquaintances, like the industrialist Rahul Bajaj, with the feeling of a personality not fully matured, not hardened into adulthood. Capable of great affection and enthusiasm, he tended to let a rush of emotion push his judgements-as in the quickly reached 1settlements' of deep-rooted ethnic and communal disputes in Punjab and Assam, settlements that soon became meaningless in the absence of the follow-up measures only a skilled politician could deliver, or in sometimes grandiose and adventurist foreign policy initiatives.

Not too deep down, Rajiv was prone to panic. When his initiatives went awry, as they tended to do among the deeply cynical and entrenched vested interests of his complex country, he would sometimes overcorrect his well-meant impulses by shabby manoeuvres or hurtful shows of a petulant temper. Rajiv had expelled the more egregious members of his mother's inner circle, but only to install his own favourites. Later known as the ‘coterie' they formed a barrier between the prime minister and his party, between Rajiv and reality. In the flattery and syco- phancy that had built up around the Nehru-Gandhi dynasty, there were few to play the role of the court fools who accompa- nied the Roman emperors at their triumphs and whispered in their cars: 'Thou art mortal.'

Within a few months of his Bombay speech in December 1985 about the Congress powerbrokers and corrupting business links, Rajiv was starting to have second thoughts. The speech had been mocked within the party as the thoughts of a greenhorn. The tax and foreign exchange raids launched by V P Singh from April 1985 had brought constant complaints from big business. Few had resulted in completed prosecutions, but the arrests, searches and seizures--all immediately publicised-were humili- ating punishment in themselves for moneybags used to getting nosy officials called off with a quick call to New Delhi., .

By April 1986, the press was reporting an imminent revolt by Indira Gandhi loyalists. Pranab Mukherjee gave an interview defending his record, and was promptly expelled on 27 April. Around mid-year, Arun Nehru-Rajiv's first cousin and internal security minister-who was also regarded as close to Dhirubhai, became estranged from the prime minister. He was dropped from his ministry in October. In June, the commentator M. V Kamath was writing that Rajiv's honeymoon was over, because of the Boinbay speech and raids on industrialists.2 The Times of India's editor, Girilal jain, was quoted as saying that big businessmen could no longer meet the prime minister. On 6 August, Rajiv was bailed up about the raids at a meeting with the Calcutta Charn- hers of Commerce, and admitted within hearing of journalists that they may have gone too far.

In late August or early September, Rajiv opted out of the meetings arranged with Gurumurthy In October he met Dhirubhai for their first direct and private meeting since becoming prime minister. But it is still not clear at what stage Rajiv might have begun to perceive Dhirubhai as an Ay. After A, the nascent revolt in the Congress Party had featured politicians identified with the Ambanis.

There remains a wonderful story, still widely told in Bombay and New Delhi, that in their first meeting Dhirubhai bluntly told Rajiv he was holding a huge amount of funds on behalf of Rajiv's late mother and-wanted to know what to do with the money. This is almost certainly apocryphal, though it became part of India's political folklore because it fitted with Dhirubhai's reputation for both brazenness and keen judgement of character.

More likely, Dhirubhai used the meeting to outline his big plans for industrial expansion. The rapprochement seems to have been assisted meanwhile by Dhirubbai's implanting the perception that his enemies were traitors to Rajiv as well. In particular, Dhirubhai would have picked on the suspicion felt by V P Singh towards.Amitabh Bachchan, the megastar of the Bombay cinema who had been drafted into Rajiv's winning Congress slate at the end of 1984. The Bachchan family had been close to the Nehrus back in their common home town of Allahabad, a modern-day administrative centre at the ancient pilgrimage site where the Yamuna River flows into the Ganges. Amitabh and Rajiv had grown up together. Elected from Mahabad, Bachchan was seen by Singh as a potential threat to his own power base in the surrounding state of Uttar Pradesh. In late 1986, Singh's staff were said to be alleging privately, without ever producing the slightest evidence to support it, that Bachchan, and his business- man brother Ajitabh who had taken up residence in Switzerland, had huge wealth hidden in Swiss bank accounts.3 According to a later report, it had been through Amitabh Bachchan that the October 1986 meeting between Dhirubhai and Rajiv had been arranged.4

On 2 December 1986, during a debate in Parliament's upper house, a minister disclosed that the Central Bureau of Investigation-which comes under the prime minister's control, through a junior minister-had started an inquiry into whether Gurumurthy was being given unauthorised access to secret government papers. A leak from the Industry Ministry's Directorate-General of Technical Development (DGTD), the apparent basis for Gurumurthy's articles in August about the 'smuggled' Reliance plants, was indicated as the specific focus. The DGTD was encouraged to make a formal complaint, which it did on 11 December-adding, either bravely or for the record, that the 'favours purported to have been shown to Messrs Reliance Industries Ltd by the officials of this office may also be investigated into'. On 21 December, the CBI raided Gurumurthy's office in Madras and took away a number of documents.

The Enforcement Director Bhure Lai, who set off on his visit to the United States later in December, is understood to have suspected he was being shadowed from India by an agent of Reliance. Within days of Bhure Lal's visit, a person who identified himself as an inquiry agent retained by Bhure Lal appeared in Bern, the Swiss capital, and began making inquiries about Ajitabh Bachchan. The Indian Embassy and possibly Bachchan himself became aware of this. The Embassy queried New Delhi and Bachchan may have contacted his brother.

Rajiv Gandhi was taking a New Year holiday with his family in the Andaman and Nicobar Islands, India's south-eastern territory in the warm tropical waters at the northern entrance to the Malacca Strait. Amitabh Bachchan joined the Gandhis for part of the holiday, something that was publicised accidentally when the Indian airliner carrying Bachchan was diverted to the Burmese capital Rangoon because of technical problems.

The Gandhis returned to New Delhi in mid-January 1987. New Delhi was in one of its periodic military flaps about Pakistan. Earlier in the winter, India itself had conducted army manoeuvres on its western border, but these had now concluded. Yet Pakistan had just moved tank formations to forward areas. Rajiv called his cabinet together to assess the threat. On the evening of 23 January, he abruptly asked V P Singh to leave the finance portfolio and take charge of defence. Rajiv had been holding the portfolio himself, but the situation now required a senior cabinet minister overseeing defence full-time. Singh could hardly refuse, and the transfer was made and announced the next day.

Bhure Lal had reported on his American visit to his immediate superiors in the Finance Ministry, and was to file a written 'Tour Report' later in February which included the results of his follow-up correspondence with Du Pont and Chemtex. Soon after Singh was transferred, the prime minister's office asked to see all the Enforcement Directorate's records regarding the Fairfax inquiry, and Bhure Lal briefed the Cabinet Secretary, B. G. Deshmukh, about it on 28 January.

Around that time, his departmental head, the Finance Secretary S. Venkitaramanan, also pressed the Enforcement Director two or three times to reveal the subjects of his inquiries, explain- ing that if the ministry was going to be put in 'hot water' he should be forewarned. Bhure Lal demurred. The word was already out in the press that Bhure Lal had engaged an American private eye and that his targets included several big Indian companies and 'a superstar politicians Later, rumours in New Delhi suggested a private eye had found evidence of Rs 6.5 billion in a Swiss bank account in the name of a company called Maeny Adol Brothers (perhaps a Lewis Carroll-Ue distortion of 'Matinee Idol Brothers'), allegedly owned by the

Bachchans and unnamed 'Italians' with Indian links. No evidence of any such company or bank deposit was ever produced, but combined with the appearance of the self-proclaimed investigator in Switzerland, the rumours added to the heat under the prime minister's friends.

The government's legal machinery was meanwhile working against Reliance on the customs and excise evasion questions. Dhirubhai was not yet out of the soup. But V P Singh was uneasy. On 9 March he asked for Bhure Lal's file on Fairfax to be sent across to him at Defence in South Block, and annotated in a margin that he had approved the engagement of a foreign detective.

Around 10 or 11 March, copies of two sensational letters were shown to Rajiv, most likely through one of the senior bureaucrats in his office, Gopi Arora. The letters were to have dire conse- quences for Rajiv Gandhi. How they reached the prime minister's office has never been revealed. Both were apparently written on the letterhead of the Fairfax Group. The first, dated 20 November 1986, said:

Dear Mr Gurumurthy,

Dr Harris apprised me of his useful meeting in New Delhi last week with Mr R. Goenka, Mr N. Wadia, Mr V Pande, Mr B. Lal and yourself. Now that the group has been retained to assist the Government of India we hope to expedite end result.

We received only US$300 000 arranged by Mr N. Wadia. As considerable efforts have already been made and expenditure incurred, it is advisable Mr Goenka arranges during his forthcoming visit to Geneva an additional US$200 000. We shall refund both amounts on receipt from the Government of India to E Briner, Attorney, 31, Cheminchapeau-Rogue, 1231, Conches, Geneva.

We shall apprise Mr Goenka in Geneva about the progress made on source of funds for purchase of Swiss properties of Mr Bachchan. We shall contact Mr Goenka at Casa Trola, CH-6922, Morcote (Ticini), during his visit.

Yours sincerely,
(sd) G. A. Mekay

The second letter carried no date:

Dear Mr Gurumurthy,

Please send me the following details to continue our investigations:

(i) The details of rice exports by the Government of India to the Soviet Union;
(ii) Documents relating to the non-resident status of Mr Ajitabh Bachchan from the records of the Reserve Bank of India.

When Mr Bhure Lal visits here next time, we "I make his stay pleasant.

Yours sincerely,
(sd) G. A. McKay

The treachery of V P Singh and other friends like Nusli Wadia seemed confirmed. Financed by Wadia and his mother's old foe Goenka, the conspiracy was aimed at striking down Rajiv through his old friend, Bachchan. The details seemed to corroborate the plot: the Swiss attorney Briner was an old friend of Goenka's who had visited him in Bombay a year or so before. Casa Trola, the address where Goenka was to -be contacted, was meant to be that of Nusli Wadia's retired father. (But the composer of the letter had got it wrong: the name.of the house, Casa Fiola, was actually mispelled, and it was not close to Geneva but on the Italian-Swiss border.)

A panic-seized Rajiv handed the letters to the Central Bureau of Investigation, who immediately assigned the case to the team already investigating the apparent leak of the Directorate-General of Technical Development report to Gurumurthy. According to the complaint filed by the DGTD, the relevant file on Reliance had indeed disappeared for two weeks in July 1986, reappearing on a certain desk on 25 July, and Gurumurthy had appeared to have drawn upon it for his August articles on the 'smuggled' plant.

But the CBI's two investigating officers, Yashvant Malhotra and Radhakrishna Nair, were reluctant to prosecute under the Official Secrets Act, originally passed by the British in 1923 to protect the Raj against embarrassment by nationalists and only slightly modified in 1949. How could it be used against an Indian journalist who had exposed in a newspaper the activities of a commercial enterprise? It was hardly the kind of offence listed in the Act: 'passing surreptitiously information or official code or pass-word or any sketch, plan, model, article, note or document which is likely to assist, directly or indirectly an enemy . . .' If Gurumurthy was to be penalised for his methods, they argued, Reliance should also be investigated for the apparent offences he had revealed.

The 'Fairfax letters' seemed to give the CBI's director, Mohan Katre, the national security grounds that were so far lacking for an Official Secrets Act prosecution. The bureau's full resources were thrown into the job.

All files on the Reliance investigation were collected from the Enforcement Directorate. At 10.30 pm on 11 March, Bhure Lal was called at his home: he was being transferred to run the Finance Ministry section handling currency and coinage, one of the ministry's most routine tasks, and was to hand over charge of the directorate the following morning. At the same time, the Enforcement Directorate itself was removed from the responsibility of the Revenue Secretary, Vinod Pande, and put under the Finance Ministry's Department of Economic Affairs, which came directly under the Finance Secretary, S. Venkitaramanan.

On 12 March, arrest and search warrants were sent by air to Madras and Bombay. At 1.30 am that night, a CBI team arrived at Gurumurthy's house, put him under arrest on charges of criminal conspiracy and breaches of the Official Secrets Act, and seized car-loads of documents. In Bombay the agency arrested the partner in Gurumurthy's accountancy firm, A. N. Janakiraman.

Later on 13 March, the CBI turned up and ransacked the Indian Express guesthouse, where Goenka happened to be staying. Wadia and the controversial Hindu 'god man' Chandraswami (to be indicted ten years later on charges of swindling a businessman of an attempted bribe in 1986) were calling, separately, on Goenka. Both were allowed to leave after being searched. As the CBI detectives went through his papers, Goenka had a telephone call. It was Dhirubhai, offering to help out in any way he could. Goenka slammed down the receiver.

At this point, the letters and their existence were not public knowledge. The waters were muddied even further by the splash in the Indian Express on the morning of 13 March of a highly critical letter written to the prime minister by the President of India, Giani Zall Singh. The elderly Sikh president, who regarded himself as India's senior statesman, had been trying to assert himself over the young Gandhi heir. Zail Singh had refused his assent to one government bill on postal services earlier in 1987; he accused Rajiv of not consulting him on the Punjab, where insurgency was getting worse. He now rebuked Rajiv for under- mining the President's high office, and warned he would not just be a 'spectator' to this process. That the Express should get hold of his letter was not surprising: Gurumurthy had drafted it, and Goenka's close adviser S. Mulgoakar had improved the English. In their search of the newspaper's New Delhi guesthouse, the CBI found a copy of the draft, with the corrections.

Brought to New Delhi, Gurumurthy was put through nearly 48 hours of straight questioning, most of it about the supposed targeting of the Bachchans. Meanwhile, the CBI issued a press notice that 'reliable information' had been received on 11 March that Gurumurthy and others had been in contact with certain foreign detective agencies and had passed on sensitive information from government files. Incriminating evidence had been seized during the searches. Through friends who brought in food and clothes, Gurumurthy was able to pass out the word to Goenka that the government had possession of certain letters.

The bureau produced Gurumurthy before Delhi's chief mag- istrate on 17 March, listed four charges under the Official Secrets Act, and sought an extension of custody. The CBI mentioned for the first time that it possessed a letter stating that Gurumurthy had made payments to Fairfax.

Represented by advocates Ram Jethmalani and Arun Jaitley, Gurumurthy admitted contact with Fairfax but pointed out that the investigators had been hired by Bhure Lal. In his bail application, the Express writer said that as a journalist he was not bound to disclose how he got access to the contents of

govern- ment files, and that a lot of relevant information had been obtained by persons working for Reliance itself a company powerful enough to have in its possession extracts from government files relevant to its pending demands and conduct of industry' For its part, the CBI was 'not carrying on either an intelligent or an honest investigation', and was allowing itself to be used as an instrument of blackmail and harassment. In the course of his address, Jeffimalani repeated the rumour about the Bachchans being involved with well-connected Italians in the Swiss company 'Macny Adol'-getting the rumour in print under court privilege for the first time.

When, on 20 March, the Calcutta newspaper The Statesman published the first of the controversial 'Fairfax' letters, Gurumurthy's allies and the public were able to see what was happening. Goenka was able to point out that he was out of the country at an international press meeting when the alleged meeting of conspirators took place in New Delhi. Nuances of the English used in the letter-in particular the erratic use of the definite article-showed an Indian rather than American hand. The Fairfax head, Michael Hershman, and his deputy, McKay, said the letter was a forgery, using a transferred letterhead from his company. It would have been stupid and unprofessional to. put such material on paper, they said.

The evidence backing the CBI case was looking shaky, and Gurumurthy was released on ball on 23 March after ten days confinement. Somewhat prematurely, as it turned out, he declared that the press could trust the judiciary to help when the executive arm of government ran amok.

On 31 March, a parliamentary debate broke out on the affair. The junior minister helping Rajiv run the Finance Ministry since V P Singh's exit, Brahm Dutt, had returned from a mysterious week-long trip to Italy in February, denying speculation that he had crossed by land into Switzerland. Dutt told parliament that Fairfax had merely been 'Informers' for the Indian Government, provoking Singh to stand up and 'share responsibility' for hiring the agency. Hershrnan told reporters he had been engaged by Bhure Lai, and had a letter to show it.

Dutt also revealed what seemed to be new evidence of the conspiracy. A computer printout from the register of the Oberol Hotel in New Delhi showed that Hershman had been booked into the hotel under the name Harris in November 1986 by Bombay Dyeing, and that Nusli Wadia had been staying in the same hotel during his visit.

A claque of ministers and MPs from the Congress Party then began a concerted attack on V P Singh in parliament. The former finance minister had endangered the national security of India by encouraging a foreign agency, one probably linked to the US Central Intelligence Agency, to obtain damaging material on prominent Indians. Sensitive material had been passed to Fairfax which could be used by CIA operatives to blackmail and embarrass India.

The clamour, which went on for five days, was led by the former foreign minister and reputed beau of Indira Gandhi, Dinesh Singh, who went to sit by Amitabh Bachchan when he finished his own speech. The choice of Dinesh Singh, another member of India's minor royalty, seemed designed to counter any backlash from V P Singh's own Thakur caste. The beleaguered defence minister walked up to Dinesh Singh.

'You've thrust a knife into my body,' he said to him in Hindi.

'What else could I have done?' replied Dinesh Singh, with a shrug.6

That Rajiv Gandhi had countenanced, possibly encouraged, the attack was obvious to V P Singh-a suspicion not Aayed when Rajiv asked his colleagues to stop and proposed a commis- sion of inquiry under two Supreme Court judges to look into A aspects of the Fairfax affair. (VP Singh was correct: Dinesh Singh later confirmed that he had been instructed by Rajiv .)7

The terms of the commission given to the panel-justices M. P Thakkar and S. Natarajan--on 6 April also confirmed that Rajiv was interested in only one side of the case. The two judges were ordered to report within three months on the circumstances under which Fairfax had been engaged, for what purpose, under whose authority, on what terms and conditions, whether the agency was competent for the task, whether any payment had been authorised or made, what information had been received by the government from Fairfax, what information the govern- ment had made available to Fairfax, and whether the security of India had been prejudiced.

The appointment came under strong attack as a diversion from a parliamentary inquiry, where all political aspects could have been investigated, and from the CBI's failing attempt to prosecute Gurumurthy under the Official Secrets Act. 'The decision is as muddled as the original fiasco which the probe intends to resolve,' wrote the advocate Ram Jethmalani in the Indian Eypress the next day. 'The decision is lacking in political honesty, is clearly calculated to subvert the due process of justice and intended only to make the judiciary a sharer in the government's amazing follies.'

In an observation that was later to get him into trouble, Ram Jethmalani also wrote that the CBI's counsel had admitted in Gurumurthy's bail hearing that the two Fairfax letters had been shown to Gurumurthy during his interrogation.

But Rajiv's move was given credence from a weighty analyst. 7'he Times of India editorialised that the commission's appointment was an 'impeccable move'. In several signed articles over April and May, the grand old newspaper's editor, Girlial Jain, urged readers to keep an open mind about the possibility of the CIA or other sinister interests being involved in the Fairfax affair, possibly to collect material for later use against India, and he asked whether the Fairfax Group was not 'semi-political in character'. Jain had not been an admirer of Rajiv before, but it will be remembered that he had invested heavily in Reliance deben- tures in 1985, with the help of a BCCI loan.

V P Singh decided to test Rajiv's support. The material employed was a coded telegram to the Defence Ministry from the Indian Ambassador in West Germany, sent around the beginning of March. In 1983, the Indian Navy had ordered two submarines from the German builder Howaidswerke Deutsche Werft (HDW). These were delivered in 1985, and negotiations were under way on a second pair, to be built under licence in Bombay's naval dockyard. The Germans had agreed to a 10 per cent price cut, but the ambassador informed New Delhi they were unwilling to give a further cut because they were still bound by contract to pay a 7.5 per cent commission to the Indian agent who had originally clinched the order.

Rajiv's government had loudly banned use of agents in all defence deals in October 1985, so it was a good test case. Singh had already asked the Finance Ministry's two economic intelligence arms to report on the involvement of agents in the arms trade. On 9 April, Singh asked his ministry's Secretary, S. K. Bhatnagar, to conduct a full investigation of the HDW case, and then issued a press release about it. He sent the case file through normal channels around to Rajiv's office at the other end of the North Block of the Lutyens & Baker-designed Secretariat Building, annotating the names of the London-based Hinduja brothers (part of the Hindu diaspora from the province of Sindh included in Pakistan), whom Bhatnagar understood to be the agents-though they later denied involvement. The file arrived on Rajiv's desk after newspapers published Singh's disclosure on 10 April.

Predictably enough, his move created a renewed furore against Singh within Congress, where the vested interests saw him as letting the side down, betraying his own team. To those in the know it was also an embarrassment to the Gandhi family. negotiations had begun with HDW in 1980 when Sanjay Gandhi was ascendant. The reaction from Rajiv's office was cool. Singh went to see the prime minister on 12 April, and did not get the support he was angling to draw out. Later that day he resigned from the cabinet.

Events pushed Rajiv and Singh further apart. Four days after Singh resigned, a reporter named Magnus Nilsson reported on Swedish Radio that the giant Swedish armaments firm Bofors had paid a large commission to agents in the US$1.2 billion purchase of Bofors artillery by the Indian Army. The Bofors deal had been signed in March 1986, six months after the ban on the use of middlemen.

Rajiv fumbled his response, giving contradictory statements in parliament. He issued a scornful denial on 17 April, and on 20 April said the Swedish prime minister, Olaf Paime, had confirmed that no middlemen had been used. His claque of Congress supporters stepped up their campaign against VP Singh, who spoke out in his own defence. Within a couple of weeks, Singh was touring the country explaining that his efforts to attack the black economy had,been subverted by the very people he was targeting. Rajiv refused his suggestion to call a Congress parliamentary meeting to discuss the Fairfax, HDW and Bofors issues. On 2 June, the Swedish Government's Audit Bureau confirmed that an even bigger amount of money than that reported by Swedish Radio had been paid to agents.

The atmosphere became even more feverish. Since March, there had been speculation that the disgruntled president, Glani Zail Singh, was thinking of disniissing Rajiv and appointing another prime minister, under hitherto untested reserve powers of his office. The Swedish audit report, contradicting Rajiv's assurances to parliament, could he a ground for his dismissal. On 17 June, a state election in Haryana, adjacent to New Delhi, saw Congress almost wiped out there by a farmer caste politician, Devi Lai, who had derided the Bofors deal in his campaign speeches.

Zail Singh backed down when he was bluntly informed by Arun Shourie, recently restored as editor of the Indian Express, that he would get no support from Rarnnath Goenka. The old press baron had realised that Rajiv's replacement as Congress leader could just as easily be Arun Nehru-perceived as Dhiruhhal Arnbani's man-as V P Singh. The president then scouted for support from Congress dissidents and opposition parties for him to nominate for a second term as president, running against the official Congress candidate, when his term ended in July. The president is elected by MPs from the central parliament and state assemblies by secret ballot, so this provided a risk-free path for Congress to ditch Rajiv, who would have been obliged to resign if his candidate were defeated.

But the support promised was patchy and equivocal: the old Sikh backed down, and retired quietly in July. Rajiv was belea- guered by further evidence of the trail of payments from Bofors pointing closer to his own circle, but he was firmly in charge of Congress. The party would sink or survive with him. In July, it expelled V P Singh.

The dumped politician was wryly stoic in a verse penned around this time:

> I have been cut into pieces
> But my value remains the same;
> I was a solid coin
> Now I have become small change.s

Singh's wan mood did not last long. In September, he launched the Jan Morcha (People's Movement) against the government, in which group ironically enough, he was joined by ,Arun Nehru.

The Thakkar-Natarajan inquiry into the engagement of Fair- fax meanwhile ground on, showing a wooden adherence to its narrow terms of reference and firmly closing off avenues that might allow the erstwhile investigators of Reliance to open up the substance of their charges. The original three-month term was extended twice, first to October and then to December. The first four months of hearings were held in secret, and it was only when open hearings began on 14 August that some of the evidence produced by the government began to emerge and the bent of the CBI, as the commission's investigating agency, became apparent.

Only the Bombay Dyeing chairman Nusli Wadia, Dhirubhai Ambani's industry rival, was declared, under the law governing commissions of inquiry, a person likely to be '- prejudicially affected by the inquiry'. In theory, this protected him against self-incrimination and enabled him to call and cross-examine witnesses; in practice the right was refused by the judges. Throughout the inquiry, the two judges came under attack in the press for refusing to state what the rules of evidence were. whether 'beyond all reasonable doubt', as in criminal cases, or ‘weight of probability' as in civil suits. Wadia was refused access to all papers put before the commission. In one instance, a judge took evidence without notice at his own residence.

Evidence and questions were swapped between the commission and the CBI. Wadia's declared status before the commission gave him no protection against action by the CBI on evidence that was presented to the two judges. On 31 July, a senior CBI officer flew to Bombay and organised the arrest of Wadia for checking into a hotel as an Indian national. In India, foreigners are required by law to pay their hotel bills in foreign exchange, often at a higher effective tariff than Indian guests. As a British citizen, Wadia would have been obliged to do this on his travels within India. He maintained he always did so but that a hotel clerk might have assumed he was Indian when completing a register. Wadia was detained seven hours before being granted bail, close to midnight.

Two things were clear: the CBI was using evidence collected in the course of its Fairfax investigation; and no case was too petty for the senior echelons of India's premier anti-corruption agency

when a political enemy of the government (as Wadia had rapidly become) was involved. On a complaint by Wadia's counsel Ram Jethmalani, Justice Thakkar said the commission had not asked the CBI to harass Wadia. They were acting on their own.

Jethmalani himself faced a contempt of court complaint in a New Delhi magistrate's court, brought in May by the CBI which insisted it had not shown the two 'Fairfax letters' to Gurumurthy during his interrogation. The existence even of the letters was now in question. The commission refused a request by Wadia for them to be produced. 'We do not know whether they exist or not,' Thakkar said, arguing that they were no longer relevant.

On 1 September, the day after the Indian parliament rose from its monsoon sitting, some 400 officials under the Finance Ministry's Director of Revenue Intelligence, B. V Kumar, raided the eleven printing centres of the Indian Express around India. They seized documents, inspected printing machinery and took away several employees for questioning. Later, the agency charged the Express with evading Rs 3.3 million in customs duty by misdeclaring the speed of a printing press it had imported, of owing Rs 27.5 million in back taxes and of violating foreign exchange laws by making payments abroad in cash. Many of the tax offences alleged against the Express were already under dispute. It was noted that the leader of the raids, B. V Kumar, had been in the customs office in Ahmedabad previously. No one in the Indian press saw the raids as anything but a blunt warning by Rajiv to the Express, by then leading the criticism over the Bofors scandal.

From the Fairfax office outside Washington, Hershman had given interviews to Indian journalists, contradicting several claims made by the government. He insisted he had been engaged by Bhure Lal, had been promised payment on a contingency basis, and had not taken any money from either Gurumurthy or Wadia. The government formally ended his engagement on 27 May, after V P Singh had mischievously asked whether India's national security was still being compromised.

To a questionnaire from the Thakkar-Natarajan Commission, Hershman asked to be satisfied first what the purpose of the commission was, given that all the facts about his engagement were known to the government; what action had been taken about the forgery on Fairfax stationery, and what action had been taken on information provided by Fairfax in the course of its inquiries. The two judges replied that these questions were beyond their scope. 'The commission hopes that you will be good enough to realise that instead of co-operating with the commission and furnishing the information, you are virtually reversing the roles,' they complained. Hershman refused to co-operate, and became a critic thereafter of a 'cover-up' implicit in the commission's role.

The former Enforcement chief, Bhure Lai, had been called in for extended and gruelling interrogation by the CBI on two occasions in late March, and then was called to give evidence by the commission. The Re-venue Secretary, Vinod Pande, was also called. He had met Wadia several times, always in his office, first around the end of 1985 to discuss duty revision on PTA and DMT, then to discuss an excise raid on Wadia's company Formica India in November 1986. But he had also met Dhirubhai and Mukesh Ambani four or five times over 1986.

Pande himself had also been moved in mid-May. In the bureaucratic equivalent of being put out to grass, he was put in charge of the Department of Rural Development. His replacement as Revenue Secretary was Nitish Sen Gupta, the former Control- ler of Capital Issues in the early 1980s during Dhirubhai's golden run in the sharemarkets.

Evidence given by all the suspected conspirators was mutually corroborating, though Bhure Lal was left quite isolated in his decision to hire Fairfax. Clearance to hire a foreign detective on contingency had only been given in general terms by his superiors. The CBI wanted to prove that Wadia and possibly Goenka had been fimding Fairfax secretly and allowing Bhure Lal to think he had hired it on contingency. But it could not rely now on the discredited 'Fairfax' letters.

The CBI needed some other clinching evidence. The CBI and the counsel assisting the commission, the Addtional Solicitor-General G. Ramaswamy, concentrated on the hotel arrangements for Hershman in New Delhi. But these seemed to point only to the possibility of a second forgery A computer printout from the Oberoi Hotel showed Hershman had been booked in by Bombay Dyeing. But this computer entry had been created the day after Hershman's arrival: the hotel's management admitted that

the detail could have been given by someone telephoning in. From Washington, Hershman said he had not met Wadia at any time, and had paid his own hotel bill with his credit card and had the sheet to prove it. Ramaswamy went into a detailed study of Wadia's bill, including his laundry account and food charges, in an effort to show he was paying for more than one person. Wadia, it turned out, had his wife with him and his father was visiting from Switzerland. The hunt for treason had turned into a farce.

At the end of August, just before the raids on the Indian Express, Ramaswamy was angrily urging the judges 'not to take it lying down' when a magazine questioned whether, rather than getting at the truth of the Fairfax affair, the end result of the Commission of Inquiry would be a 'frame-up' of Nusli Wadia.

In the outcome, when the Thakkar-Natarajan report was handed to the government on 30 November and published on 9 December 1987, it did what Rajiv had obviously wanted it to do. It censured V P Singh for exposing India to security risks by allowing Bhure Lal to engage a US detective agency which employed some former CIA officers. The report concluded that Wadia had played an active role in the engagement of Hershman by Bhure Lai, and had sponsored Hershman's stay at the Oberoi Hotel where he himself was also staying. Bhure Lal and the Government of India had been used as 'Instruments' to serve the purposes of Wadia, who had an 'animus' against Reliance through business rivalry But there was no evidence that Bhure Lal knew about Wadia's interest and role. It was inconceivable that Fairfax would ever have agreed to work on the system of rewards for information.

V P Singh declared the report 'a monument of injustice'. Rajiv Gandhi said it completely exonerated his government and had identified those who had joined hands with foreign agents in a conspiracy to weaken the country

The origins of the forged Fairfax letters were never investigated, nor was the identity of the 'detective' who had appeared in Switzerland and started inquiries about the Bachebans. Together they showed the workings of a bold and unconventional mind, the existence of an impressive intelligence network, and an uncanny grasp of human weakness.

The furore the letters set off caused a fatal split in Rajiv Gandhi's government, which just over two years earlier had won a record majority in parliament and seemed able to achieve a transformation of India's economy. By the end of 1987, Rajiv Gandhi was a discredited leader heading for electoral defeat.

Possibly, his government's decay would have happened anyway after the revelations in Sweden about Bofors. The trail of commissions was eventually shown to lead through Swiss bank accounts to at least one family friend, an Italian company representative in New Delhi. But perhaps Rajiv might have faced up to this scandal if he had kept his head about the alleged Bachchan aspect and continued to ally himself with those trying to nail down Reliance, thus possibly keeping their support.

The Bofors scandal made unbridgeable a rift that had already occurred. On top of corruption later came all the other issues of Indian politics: religion, caste, region, language, control of water resources, wealth disparities and so on. It has been overlooked that the split that eventually brought Rajiv Gandhi down can be traced back to the commercial rivalry between Reliance Industries and Bombay Dyeing over control of the Indian market for the polyester feedstocks purified tere-phthalic acid and dimethyl ter-ephthalate. The remark of the former minister that 'the course of Indian politics is decided by the price of DMT' (see Chapter 7) seems all too true, at least for this tumultuous period.

The end result of the Thakkar-Natarajan Commission was, predictably, worthless. Even if Wadia had made secret payments to Fairfax, possibly breaking the foreign exchange law (though as a foreign citizen he was entitled personally to keep funds over- seas), only by a long stretch of the imagination could India's security have been considered at risk.

The exercise was called a 'cover-up' and a giant 'red herring'. Beyond the end benefit, there was nothing to connect Dhiruhhal to the Fairfax letters. But those of his old friends who knew him from the early days might have thought perhaps of a different phrase: Bichu chordya-Letting loose a scorpion.

BUSINESS AS USUAL

Dhirubhai Arnbani was back in favour. His enemies and critics Dhad been exiled from their positions of economic control. If the prime minister did not regard Dhirubhai as a friend and ally, at least he perceived Dhirubhai's enemies as his own enemies. And as the Bofors scandal became more and more embarrassing, with Ram Jethmalani and Gurumurthy trumpeting each new revelation, Rajiv Gandhi was suddenly feeling very threatened.

But Dhirubbal was in a tight position financially. At the end of April 1987, two weeks after V P Singh's resignation, he announced Reliance's poor results for the calendar year 1986. The profit was barely enough to cover a dividend of 25 per cent on the Rs 10 par value of the share, cut in half from the 50 per cent declared in 1985, and even that was denounced as a product of accounting jugglery. Several commentators recalled Dhirubhai's forecast of improved profits in November just before the G Series debenture issue and asked how, in the eleventh month of the company's financial year, he could possibly have been unaware of the likely result. The polyester staple fibre plant had been completed six months behind schedule, and the PTA plant was a year overdue. Diminished cash flow was the reason for the delays but the company's reputation for mastery of technology was deflated. The customs and excise evasion cases and the CBI's criminal investigations were still alive.

After the 1986 results, the collapse in the Reliance share price brought down the whole market, until the government nudged the Unit Trust of India and other institutions into a market support operation. The sharemarket boom set off by Rajiv's 1985 initiative in economic liberalisation had ended. This was partic- ularly grim news for Dhirubhai. As well as restoring high profits to Reliance, he also faced the task of rebuilding the estimated Rs 5 billion of his private funds lost in defending his empire in 1986.

Rajiv's government did all it could do to help, with Narain Dutt Tiwari a sympathetic listener as minister of commerce and for some months also finance minister. On 7 May 1987, just after the Reliance results, it announced a string of changes in the import regime for polyester and its inputs, ostensibly to help the whole domestic industry cope with what was portrayed as a weakening market. Polyester staple fibre, of which Reliance was about to become the biggest Indian manufacturer, was taken off the 'open general list' for imports-meaning any textile weaver could import it-and 'canalised' through the State Trading Corp, a government agency that usually kept the import tap closed. The 'specific duty' of Rs 3000 a tonne put on imports of PTA and DMT in 1986 after lobbying by Wadia's Bombay Dyeing was removed. As DMT imports were also canalised and effectively stopped 'this benefited PTA users-chiefly Reliance which was still a few months off getting its own PTA plant into production. Extra allocations of foreign exchange were cleared for the PTA plant and the catalysts it used. Patalganga's PSF capacity, larger than the licensed 45 000 tonnes, was legitimised by a 're-endorsement'. The duty on N-paraffins, the petroleum feedstock used to make the detergent ingredient LAB, was cut by 75 per cent. Reliance was the only LAB manufacturer in India that needed to import this input, as the others were all integrated into local refineries which made it. A new scheme of export incentives on polyester yarn and fibre exports handed out some cash rebates, excise concessions and 'replenishment',tights for imports.

The Finance Ministry also gave prompt clearances for steps to improve the company's cash balance. Within ten days of an application by Reliance, the Controller of Capital Issues cleared a rights issue of new shares to existing shareholders that raised Rs 1.98 billion. The government-run insurance companies, banks and investment funds became more interested in working capital loans, subscription to debentures, and sale--leaseback arrange- ments on equipment.

The Controller of Capital Issues also cleared a proposal to ' (bring forward) the conversion of the G Series deben- prepone tures by six months, to 31 July 1987, taking Rs 5 billion off the company's debt. This was barely five months after the debentures had been allocated among the subscribers. Many had not even received their certificates. Now they were being hurried into conversion.

Reliance issued a notice on 6 July calling an extraordinary general meeting of shareholders on 8 August to approve the early conversion. On 1 August, it sent a circular letter to the debenture holders stating that if they opted for early conversion they need not send any communication. If they had not sent an attached form by 25 August, they would be deemed to have opted for conversion. According to litigants, who managed to delay but not stop the conversion later in the year, the 1 August circular

reached many debenture holders only on 20 August-too late to be sure of sending their objection to conversion.

The litigants, who included some trade unionists representing Reliance workers at Naroda, claimed that many investors might have wanted to hold on to their debentures for the full year, and earn their 13.5 per cent interest. Big financial institutions had been already informed mid-year by Reliance that profits and dividends for 1987 would stay low, and that easing of the company's interest burden was vital. With the connivance of the government and its public financial arms, the litigants were saying, the small investor was being exploited so that Reliance could save some Rs 330 million in interest.

Debenture holders were also to discover that their bonds had been issued in units of ten, which meant the two-for-one shares they received on conversion were in lots of 20-not regarded as marketable lots' in the stockmarket where the normal basic parcel was 50 shares. This meant delays while Reliance Consult- ancy Services, the group's share registry, carried out the splitting,. and consolidation of share certificates into lots of 50. The newly created shares were not, in any case, listed in the various stock exchanges until February 1988, meaning that for some six months after conversion the shares were not tradeable and could not add to any selling pressure on the price.

Despite all the help the government provided, Reliance was indeed still facing a dismal year. To stave off announcing a loss, it resorted to a desperate accounting move. The period of its accounts was to be shifted from the calendar year to the April- March fiscal year used by the government, meaning the 1987 year would actually have 15 months and end on March 1988. But by March, according to later analysis, Reliance was still showing a profit of only some Rs 130 million, even less than the 1986 result.

On 28 April 1988, Reliance announced it would extend its year by another three months, not of course because of its lack of profits so far, but on the novel ground of 'synchronising' the commissioning of the PTA and LAB plants with the accounting year. By that stage, more favourable breaks had been given by the government in its budget for the year starting April 1988. The excise on yarn and fabrics was lowered: Reliance had been among several producers that had raised prices ahead of the budget speech and then announced that they were cutting prices to 'pass on' the benefits of the excise cut to consumers. A week after the budget speech, as an afterthought, the import duty on the polyester input MEG was cut sharply.

When the figures for the 18-month-long 'year' were announced in November, Reliance announced another 'record' result, of Rs 807.7 million net profit on Rs 17.7 billion in sales. Together with an interim dividend of 30 per cent, the final dividend of 25 per cent (of Rs 10) brought the shareholder's reward to Rs 5.5 on each share. It was certainly the company's largest profit yet, but when annualised it was still down on the Rs 713.4 million profit declared in 1985. It had been helped by more creative accountancy, notably the capitalising of the entire interest cost of the PTA and LAB plants and a new basis of provision for depreciation, which. had added some Rs 245.4 million to the bottom line. By the financial ratios such as return on capital, which investment analysts used to gauge a company's efficiency and relative profitability, Reliance had shown less than spectacular results.

The justification for Reliance's hunger for money was the industry vision Dhirubhai could conjure up for his shareholders. At his annual general meeting in June the venue was an enclosed suburban hall rather than under the blue sky of the Cooperage Football Ground or the Cross Maidan. But Dhirubhai still looked up from the financial mires to a future of massive silver cracking towers, distilling columns and chemical containment spheres on the barren coastline of his childhood.

The company had been allocated 280 hectares of land at a new industrial zone called Hazira, on the banks of the Tapti River, across from the ancient textile trading port of Surat where the East India Company had set up its first trading 'factories'. Reliance planned to move into petrochemicals, making high-den- sity polyethelene, polyvinyl chloride and caustic soda-the ingre- dients for the plastics revolution that had reached households in Southeast Asia but not yet India, where sugar or cement was still shipped in jute sacks, women hauled water from their pumps or tanks in brass or steel urns, shopkeepers expected customers to bring their own containers for milk or rice, and farmers lugged steel irrigation pipes across their fields or just gouged crude channels in the earth. All the plants listed for construction at Hazira had been cited as proposed activities by Reliance when it garnered subscriptions to its G Series

debentures in November 1986, and the acquisition of land at Hazira had been reported to Reliance shareholders in June 1987, along with the dismal 1986 results.

The site remained a swamp, as Dhirubhai tried to muster cash and credit to start building his dream. At the end of May 1988, Reliance had applied to the Controller of Capital Issues for permission to make yet another massive debenture issue to finance its Hazira project, this time though a newly created subsidiary called Reliance Petrochemicals Ltd. The fully convertible debentures would be priced at Rs 200 each, and bring one Rs 10 share in the new company immediately on issue, with the remainder being converted to more shares in two stages over the next three to seven years. The issue would raise Rs 5.934 billion towards an investment estimated at some Rs 25 billion by the time it was completed in 1994.

The issue was cleared early in July 1988 and opened for subscription at the end of August, even though, as the Indian Express pointed out, Reliance Petrochemicals did not appear to have yet obtained the industrial licences it needed for the project. It was also the first case of a new company with no assets against its name being allowed to issue fully convertible debentures, which was against the policy laid down by the Finance Ministry controllers up to then. The Express also questioned whether Reliance was raising money a second time, through the subsidiary, for the same projects the G Series debentures were supposed to fund. This time Reliance had a more sympathetic car in the Supreme Court. On 25 August, the court barred the Express from publishing anything on the validity or legality of the approvals got by Reliance Petrochemicals in connection with the issue. The order was lifted on 23 September after the issue closed. By then, Dhirubhai had 2.3 million new investors in his empire, among them of course many of the existing 1.8 million shareholders in the parent company.

The petrochemicals plant would make Reliance only the second producer of high-density polyethylene in India, and its biggest producer of PVC. But Dhirubhai's ambitions were racing even further ahead. In October that year, the economic affairs committee of Rajiv's cabinet approved his proposal to build a gas cracker-a plant that breaks down the components of natural gas into different petroleum gases-alongside the petrochemicals plant at Hazira. It would produce 320 000 tonnes a year of ethylene, 160 000 tonnes of propene, and 50 000 tonnes of butadiene. The feedstock would come from the nearby South Bassein natural gas field being developed by the government's Oil and Natural Gas Commission.

This was another big project, using proprietary technology of the world's petroleum and engineering giants. How was Dhiirubhai to finance this when the big petrochemicals plant had just been put off the parent company's own rather stretched accounts?

Dhirubhai already had his eye on one of the jewels in the Indian corporate world, which he felt a friendly goverranent had put in reach. The Bombay engineering firm of Larsen & Toubro, founded by two Danish engineers in 1938, had become one of India's biggest listed companies by 1987, with assets of Rs 9 billion, annual sales of Rs 5.8 nffilion, and gross profit of Rs 820 million. It was building all kinds of factories, making offshore platforms for the new oil and gas discoveries in the Bombay High, and fabricating high-performance equipment for India's nuclear power, space and defence programmes. It was something of a strategic national asset.

As far as ownership went, the Danes had retired from the scene. The firm's shares were# widely dispersed, but the govern ment's financial institutions held a combined 42 per cent which decided the fate of its management. It had made some ill-timed diversifications into shipping and cement, but was a conservatively run company with an impressive range of technical expertise. Mile regarded widely as 'sleepy' and not giving its potential performance, it was still making a return on net worth that was twice that of Reliance in the bad days of 1986--87. It was immensely rich in internal cash reserves and borrowing power. A tempting takeover target, and the Dubal-based Chhabria brothers had already started nibbling in the market in 1987. But without the support of the institutions, no raid could succeed.

In May 1988, the Bank of Baroda, one of the score of nationalised commercial banks, decided to get into investment banking and to set up a subsidiary called Bank of Baroda Fiscal Services, soon abbreviated to BoB Fiscal. Two months later it asked the Unit Trust of India and the Life Insurance Corporation (LIC), two of the biggest institutional investors in the sharemarket, to help it start a portfolio by selling it baskets of shares. Oddly, 63 per cent of the basket from LIC and 46 per cent of the basket from UTI (by value) were Larsen &- Toubro shares, bought for a total Rs 270 million on 3 August. BoB Fiscal sold these shares two days later for Rs 300 million to V B. Desal &- Go, a firm of sharebrokers who did a

lot of work for Reliance. Later in August, BoB Fiscal repeated the same exercise with the General Insurance Corporation (GIG), taking delivery of Larsen &- Toubro shares for some Rs 141 million, about 55 per cent of the basket from GIG. These were also sold to V B. Desai &- Go, two months later. The brokers then transferred the two lots of shares, amounting to 8 per cent of Larsen & Toubro's equity, to the Reliance offshoot Trishna Investments. Reliance suddenly emerged in October as the biggest non-institutional shareholder in the blue-chip firm.

Meanwhile, the Company Law Board, not until then the most vigorous regulator of corporate misdemeanours, had been acti- vated by a minor scandal in the Larsen &- Toubro management over the use of a cornpany-owned apartment. The financial institutions agreed it was time for a new broom. On 1 1 October 1988, Mukesh Ambani and the Reliance director M. L. Bhakta joined the Larsen &- Toubro board by invitation. Dhirubhai proclaimed the new alliance 'a merger of the professional skills of Larsen & Toubro and the entrepreneurial skills of Reliance'. It meant greater risk-taking ability for Larsen & Toubro, he told journalists.

Reliance kept on buying Larsen & Toubro shares in the market, helped by a share price that had fallen on news of their effective takeover. It had built up a stake of about 20 per cent by early in 1989, when Dhirubhai was invited in as chairman and Anil Ambani also appointed to the board.

Just what Dhirubhai had in mind about greater 'risk-taking' came soon afterwards. In March 1989, Larsen & Toubro raised Rs 800 million for 'working capital' in a convertible debenture issue and then put Rs 760 million into Reliance shares to cement the relationship. It was paying over 12 per cent interest to the debenture holders, and earning about 2.5 per cent in dividends on the shares.

In September 1989, Dhirubhai announced some other measures to tighten the alliance. Larsen & Toubro's shipping division would acquire two new ethylene carriers, which could be used to deliver feedstocks to the Reliance Petrochemicals plants at Hazira. ,And Larsen & Toubro would be given the job of building the new Rs 5.1 billion natural gas cracker that would eventually give an in-house supply of ethylene and other feedstocks.

The downside was that Larsen & Toubro itself would be financing the order it had just won. It would raise Rs 8.2 billion (Rs 9.43 billion with retained oversubscriptions) through a 'mega- issue' of debentures. Out of this, Rs 6.35 billion would be given to Reliance as 'supplier's credit' for the natural gas cracker that Larsen & Toubro would build for Dhirubhai's company at Hazira.

Dhirubhai explained that the deal with Reliance would give the engineering firm access to gas-cracking technology which it could apply to projects all round the world. Around this time, Dhirubhai was also talking up some grand infrastructure projects in which Larsen & Toubro could take a lead: an undersea tunnel linking crowded inner Bombay with the open land across its wide harbour; a long dam across the Gulf of Cambay gradually collecting fresh water behind it; a superhighway linking Bombay, Delhi and Agra. It was time for Larsen & Toubro to think big.

As he was with Reliance. In December 1988, Dhirubhai announced he was applying for permission to build a 6 million tonne a year oil refinery at Bharuch in Gujarat. Until then, oil refining had been reserved for government owned or controlled companies. His chances of approval were slim (and his application was turned down six months later) but Dhirubhai declared that, sooner or later, New Delhi would realise it could not finance all of India's burgeoning refining needs. Other diversifying projects put up around this time included sponge-iron, power generation, television tubes, and pharmaceuticals, none of which made much progress.

But bankers and accountants looked at the potential downs- ide. The supplier's credit would be given to Reliance at 15 per cent interest, a margin of 2.5 percentage points above the rate Larsen & Toubro would be paying investors. But this was a puny return on funds that could be used to expand Larsen & Toubro itself. And the amount of supplier's credit, to one company and one project, was equivalent to some 55 per cent of Larsen & Toubro's total assets. It was a massive exposure for the company to a single risk.

Gurumurthy cried 'plunder' in the Indian Express, as the Ambani takeover progressed. The helpfulness of Dhirubhai's friends in the financial institutions, notably the chairman of the Unit Trust of

India, Manohar Pherwani, was noted. Gurumurthy recalled that the chairman of the Bank of Baroda, Premjit Singh, had also helped Reliance out in the past by providing US$25 million in loans for overseas Indians to subscribe to its F Series debentures in 1985. An enterprising and evidently plausible reporter on the Express, Maneck Davar, made a trip to southern Gujarat, where he found the sons and daughter-in-law of the bank chairman running a polyester yarn texturising company set up in October 1986. It took partially oriented yarn from the Reliance plant at Patalganga and then sent the crimped yarn back to Reliance, earning an estimated profit of Rs 5.5 million a year. Davar inquired whether he too could send yarn for texturising: he was told the firm worked only for Reliance.

No one in the government wanted to know. Dhirubhai had meanwhile moved further up in his scale of living. In November 1988, the entire Ambani clan had moved away from the Usha Kiran building where he and his brothers owned flats. The new family home was a 17-storey apartment building called 'Sea Wind' off Cuffe Parade in the historic area of Colaba, close to the business heart of Bombay. An Ambani company had bought the building in its entirety, and the family spread out through its upper floors. The first five floors were devoted to car parking, the sixth and seventh to a gymnasium and swimming pool, and several other floors to guestrooms.

Dhirubhai was also on the way to satisfying an urge to counter the Indian Express in print, and perhaps to attain the indefinable status of the media baron. Dhirubhai had talked for some years of getting into the media business, and already had a successful advertising agency, Mudra Communications, which was ranked fifth in India by annual advertising billings. This helped pressure editors, as we have seen, but Dhirubhai wanted an editorial voice of his own.

He had looked at several newspapers that came on the market, and had earlier bought a controlling interest in the pro-Congress newspaper, the Patriot, which had made vitriolic attacks on Nusli Wadia in response to the Express campaigns. At the end of 1988, his son-in-law Raj Salgaocar bought the Bombay weekly newspaper Commerce. Financially ailing, it had passed through five owners in recent years including Kapal Mehra of Orkay Silk Mills, but had a useful business and economic research bureau. Prompted by Salgaocar and Anil Ambani, Dhirubhai agreed to transform Commerce into a mainstream daily business newspaper, to be modelled on the Financial Times of London. As editor he hired Prem Shankar Jha, a former editor of The Hindu, son of a former foreign secretary and government economist, and a noted writer himself on India's political economy in the academic world. Jha hired nearly 60 of India's best journalists, paying salaries that set a new benchmark for Indian newspapers. But partly due to a foul-up in ordering printing equipment, the new Observer of Business and Politics was not to launch until December 1989 when, as we shall see, it was already too late to turn the political tide even if Dhirubhai's hired pens had been able.

His problems with the law were being pushed aside. The director of the CBI, Mohan Katre, had not been keen on investigating the allegations raised by the Indian Express. Early in 1987, the anti-corruption agency's additional director, Radhakrishna Nair, had recommended prosecution over the backdating of the letters of credit for the PTA imports in May 1985, but Katre had effectively sent the file on a bureaucratic wild goose chase by referring it to the Finance Secretary, S. Venkitarainanan, who in turn referred it to the Law Ministry. On 25 November 1988, the junior finance minister Eduardo Faleiro told parliament that the CBI's report had been examined 'in consultation with the RBI and no further action is contem- plated for the matter'.

In 1987, Katre had been a prominent guest in the VIP box at the World Series cricket tournament, sponsored that year by Reliance. The venue for the New Delhi games was a stadium at a convenient walking distance from the office complex housing India's security and intelligence agencies.

Nair volunteered for early retirement in 1988.

By launching a High Court action, Reliance had stalled the 1985 show-cause action started by the Assistant Collector at Kalyan for alleged evasion of Rs 270 million in excise on its polyester yarn production. There was still the show-cause notice issued in February 1987 over the alleged smuggling of Rs 1.14 billion worth of yarn equipment and evasion of Rs 1.2 billion in duty. Reliance had tried to get Bombay High Court and the Customs appellate tribunal to quash this notice also, but without success. It was due for hearing in April 1988 before the Bombay Collector of Customs, Sukumair Mukhopadyay, regarded as an upright official immune to political and other pressures.

The scheduled hearing on 25 April had to be called off when Mukhopadyay was summoned to New Delhi for a meeting of western India Collectors of Customs, convened with little notice by the junior finance minister in charge of revenue, Ajit Panja. The hearing was relisted for 5 May. On 4 May, Mukhopadyay was transferred to a new position, and the case postponed again.

The new Bombay Collector, K. Viswanathan, took his time to familiarise himself with the case. Nearly eight months later, on 31 January 1989, he announced his decision to drop the smuggling charges against Reliance. 'There is no direct evidence, documentary or otherwise, of undervaluation,' he ruled, '. . . the charge of undervaluation is based on a capacity which is founded purely on theoretical calculations and calculating them by mis- reading the relevant data of the documents of contract . . . Reliance Industries Ltd had not exceeded their licensed or the designed capacity and the capacity of the plant imported by them is neither in excess of the contract nor is the import contrary to the import licence.'

The battle with Nusil Wadia's Bombay Dyeing had moved upstream in the petroleum product chain from PTA and DMT to their common input paraxylene. Once again with funds to spare, Reliance was getting its long-delayed PTA plant into operation over 1988 and achieved commercial production in the last quarter of the year. The PTA plant, as we have seen, included its own paraxylene-producing unit which used napththa as feed- stock. Bombay Dyeing's DMT plant continued to use paraxylene, which it needed to import for lack of domestic supply.

In March 1988, the government raised the customs duty on paraxylene from 85 per cent to 120 per cent, even though world market price for the feedstock had recently moved up from around US$400 a tonne to US$685. At this stage, Reliance was still using imported PTA on which duty had been cut ten months earlier. Bombay Dyeing was the only Indian importer of paraxylene, and now received a double hit from the world price and the duty hike.

Reliance also received another benefit for its Patalganga paraxylene plant. In July 1988, the Finance Ministry granted it the status of a refinery, ahead of some 20 other napththa-based industries also seeking the same ruling, including National Per- oxide, associated with Bombay Dyeing. The status meant that Reliance could get its napththa from domestic refineries at the concessional price of Rs 30 000 a tonne instead of Rs 100 000. The decision had been opposed by two members of the Central Board of Excise and Customs, B. R. Reddy and Jyotirmoy Datta, who pointed to the massive subsidy it implied through loss of excise, but they were overruled.

On 1 March 1989, the government cut the duty back to 90 per cent, but transferred paraxylene imports from the open general list to the 'canalised' category, with the government- owned Indian Petrochemicals Ltd as the importing agency. In effect, this meant that Bombay Dyeing's independent sourcing of the vital feedstock was throttled back. The official in charge of petrochemicals called a meeting of paraxylene users, including Bombay Dyeing and Reliance, to ask if there were any surplus supplies. A week or so later, Reliance notified the government it had about 40 000 tonnes to spare and that there was no need for imports.

If this indicated that Reliance indeed had greater capacity at Patalganga than authorised, the excess was quickly legitimised: in March the 'minimum economic size' for PTA plants under the industrial licensing system was raised from 100 000 tonnes a year to 150 000 tonnes, and in June to 200 000 tonnes. The minimum size for DMT units remained at 60 000 tonnes.

Wadia remonstrated with the government over the next three months, taking his complaint to the Cabinet Secretary, B. D. Deshmukh. Reliance had effectively taken over the profitable paraxylene business &om the goverrunent's own Bharat Refineries, using its napththa. Meanwhile Indian Petrochemicals was keeping Bombay Dyeing on a hand-to-mouth supply line for its paraxylene; the company ran out of the vital feedstock twice in this period. Reliance was asking the equivalent of the landed cost of imports, about Rs 28 000 a tonne, for its surplus. Bombay Dyeing estimated its cost of manufacture was between Rs 10 000 and 1 1 000 a tonne. With domestic excise and sales tax a combined 19 per cent, this suggested a profit of Rs 1 1 400 to 12 400 a tonne. Wadia argued that paraxylene should be made available to all DMT and PTA producers at the same price, as set by the Bureau of Industrial Costs and Prices. This would be about Rs 7000 a tonne lower than the Reliance price.

Over this period, street protests and court actions against the government's treatment of Reliance made little progress, though they kept the allegations against the company alive. In October 1988, the farmers' group Shetkari Sanghatana, which had been campaigning for three years against artificial textiles on behalf of cotton growers, announced it would blockade the Reliance factory at Patalganga. But the movement's leader, Sharad Joshi, was persuaded to drop his plan. In December 1988, two allied activists, journalist Anil Gote and medical doctor Pandurang Ranjaram Kinare, employed lawyers Shanti Bushan and Mahesh Jethmalani to sue the government and others over the CBI's failure to prosecute on the evidence it was alleged to have assembled against Reliance. By contrast, the CBI had shown 1extraordinary zeal' in prosecuting trivial offences by those who had exposed alleged !Uegalities by Reliance.

Bombay Dyeing's lobbying got it nowhere. Dhirubhai was counted as a major backer of Congress for the general elections due at the end of 1989. Rajiv was turning back the clock in an effort to recapture the dynastic magic. In early March, his mother's former political manager, R. K Dhawan, returned to the prime minister's office as an officer on special duty. Rajiv had set aside his 'preppy disdain' for the 'oily-haired Punjabi babu [clerk]' and returned to Indira's style of functioning.' Dhirubhai had his own contact back in court.

By November 1989, Indian Petrochemicals cut off the supply of imported paraxylene altogether, while the government dropped excise on domestic supplies. Nusli Wadia was compelled to buy 4000 tonnes from Reliance, paying Rs 22 000 a tonne, which still left Dhirubhai a fat profit margin on his sale. By that time Dhirubhai had many other worries, but he must have savoured this humiliation for Wadia at the end of this second phase of the Great Polyester War.

MURDER MEDLEY

Since March 1987, the tables had been turned against Nusli S Wadia and the Indian Express, who were both beleaguered on many fronts.

Ramnath Goenka's health was failing and the old Marwari newspaper baron was spending long spells in hospital. But he was continuing the fight, even though the Indian Express was facing its worst period since Indira's Emergency. By the end of 1988, over 230 prosecutions had been launched against the group, by agencies in charge of company law, customs, income tax, foreign exchange, and import quotas. Government advertising was withdrawn, and banks directed to refuse credit. In Bangalore, the Express had continual trouble with its communications lines. Staff were harassed by goondas (muscle men). A previous ally in exposing Reliance, the tabloid Blitz had switched sides by mid- 1987, when it captioned a picture of Express Towers as the 'House of Forgers' and called its editor, Arun Shourie, the Ace of Liars'. By late 1989 the group was on the brink of collapse, Shourie later revealed.,

From how high up the pressure started is indicated in the memoirs of the senior civil servant Madhav Godbole. As Finance Secretary for the state of Maharashtra over 1986-89, Godhole was instrumental in denying requests by Reliance for additional concessions in state sales tax on production at Patalganga---one- request being for sales tax breaks on production in excess of licensed capacity. Godbole recounts direct requests in person by Dhirubhai and Mukesh Ambani, lobbying on Reliance's behalf by the Marathi-language writer Bal Samant and by Congress MP Murli Deora, a string of invitations to music concerts at Dhirubhai's home, and a call from the Reliance public relations department asking if Godbole and his wife would be interested in some shares from the directors' allotment in a current Reliance issue. Godbole refused all requests and offers. In April 1989, anonymous telephone threats to his home late at night caused Godbole to obtain police protection. Finally, the state's chief minister, Sharad Pawar, called Godbole in and told him of 'a lot of pressure from 7 Race Course Road'-the prime minister's official residence in New Delhi.2

After his arrest by the CBI in August 1987 for a wrong entry in a hotel ledger, Nusli Wadia encountered many other challenges apart from his intense battle over paraxylene. He and his companies were scrutinised for any possible violations of the Companies Act, the foreign exchange regulations, and customs and excise regimes. Income tax inspectors revisited his tax returns for the previous thirteen years.

In the early hours of 12 July 1989, Wadia arrived back at Bombay's Santa Cruz airport from an overseas trip. Immigration officials served him with a deportation order, which said the Government of India had declared him an undesirable alien. Wadia had just over 24 hours to leave the country of his birth, where he had spent most of his life, and where his family had a continuous record of business for over 300 years.

He began an urgent legal appeal, and got a court to stay the expulsion order. But the message was clear: if Wadia did not buckle under to Ambani's industrial supremacy and pay his price, all mechanisms of the state could be manipulated to make his position in India untenable. His former friend Rajiv Gandhi had completely switched sides.

But just as the opposing forces seemed to have backed Wadia into a tight corner, the most bizarre episode in Bombay's textile Mahabharata began--one that was soon to cover the Ambanis and Reliance with great embarrassment, and bring a collection of characters from Bombay's violent underworld briefly on to the centre stage of Indian commerce.

A week after his arrival back in Bombay, Wadia was told that his life was in danger in his home city. The chief minister, Sharad Pawar, telephoned Wadia at his home fronting the Arabian Sea at Prabhadevi waterfront. Without giving details, he warned the textile tycoon of a conspiracy to assassinate him. A squad of police commandos arrived soon after to mount a 24-hour guard on Wadia's home. Two cars packed with armed police were assigned to escort Wadia's limousine around the city.

Pawar was an old friend of Wadia, and no friend to Dhirubhai. He had parted company with Ambani's principal political invest- ment, Indira Gandhi, in the late 1970s and had run a rebel Congress Party in his own state. Brought back into the main- stream Congress only recently by Rajiv Gandhi and installed as chief minister, he remained an ambitious and independent- minded satrav whom Gandhi's

loyalists regarded with great suspicion. Prominent among these loyalists in Maharashtra was the former city mayor and the Congress MP for South Bombay, Murli Deora, an old yarn market colleague of Dhirubhai. By then Pawar was feeling some heat himself from Reliance for failure to overrule Godbole on sales tax and for other holdups in state government clearances. Pawar believed Reliance was stirring up certain land scandals being levelled against him by party dissidents.

Even so, Wadia suspected the security scare was a ruse to keep him under guard and keep his activities closely monitored. The next day, he gave the guards the slip and vanished for several hours. On his return, Pawar was again on the telephone and rebuked Wadia, warning him the threat was serious.

Wadia continued to be tied up with his appeal against the deportation order. On 26 July, he applied to the Bombay High Court to be recognised as an Indian citizen. On 28 July, he faced no less than the Additional Solicitor-General of India, G. R. Ramaswamy, who spent an entire day in court opposing his application. In addition, the CBI director Mohan Katre came down from New Delhi and spent the day watching the proceed- ings, a highly unusual level of interest given that the case was not one involving his agency. As the CBI is the only agency which can investigate judges, his presence may have been intended to intimidate the bench. Ramaswamy argued that Wadia had never been an Indian citizen, and even if he had, his application for British passports in 1964 and 1984 had automatically extinguished any claim to Indian nationality.

But on the evening of 1 August, a sensational development suddenly put Reliance in the dock. Detectives of Bombay's Criminal Investigation Department arrested Kirti Vrijlal Ambani, a general manager of Reliance in charge of public relations and customs and excise matters, and charged him before a magistrate with conspiracy to murder Nusil Wadia.

Also arrested and charged as chief co-conspirator was a strange companion for the Reliance executive: one Mun Waghji Babaria, already widely known around Bombay as a small-time popular music band leader playing under the name 'Prince Babaria &- His Orchestra'. Then 40, Babaria had frequently organised entertain- ment evenings that brought Bombay's milieux of business, cinema, and crime together. Favouring black sequinned suits, see-through black shirts and a gold medallion as stage costume, Prince played the drums in his band, while 'playback' singers and dancers pumped out hits from Hindi movies.

Figures such as the actor Sayeed Jaffrey, the reputed kingpin of gold and electronics smuggling in Bombay, and several senior businessmen are among those figured in Babaria's photo-album of musical parties. Two years earlier, Babaria had taken his musical troupe to Dubai, to provide the night's entertainment at the birthday party of Dawood Ibrahim, the preeminent don of the Bombay underworld, later to be accused as mastermind of the bombings that rocked the city in March 1993, killing nearly 300 people.

Among Babaria's circle of acquantainces was Kirti Ambani, then 47. A long-time Reliance employee, he was originally named Kirti Shah but became so devoted to the Reliance founder that he had changed his own name to Ambani. Babaria had called occasionally at 1Grti Ambani's office. At a party for Babaria's young son in 1987, Kirti had been a chief guest-his presence recorded on video and camera.

The character of each of the two accused immediately threw a degree of implausibility over the alleged assassination plot: Kirti Ambani, a middle-management company man with an engineer- ing degree, fond of playing chess, with wife and children in the suburbs; Prince Babaria, a sentimental and pudgy figure of middling talent, desperately proud of his pretty wife Hema and their two children, and living, as it turned out, in a police barracks at Bhendi Bazar-where his forebears had made a living for six generations as police informers.

Bombay business circles were incredulous enough that a Reliance employee would even think of taking out Wadia. Life was and is cheap in Bombay. right through the 1980s and 1990s leading businessmen in the construction and transport industries have been victims of contract killings carried out for amounts less than two thousand dollars. But the Arnbanis' constantly expanding ambitions seemed to place them on a level of corporate behaviour well above this vicious jungle. Their chosen weapons were the robust publicity offensive, the judicious stimulus to bureaucrats and politicians, and an unfailing ability to interest big and srno investors in their schemes.

In compiling evidence on the alleged conspiracy against Wadia, the police also revisited earlier cases-such as the bashings and attacks met in the past by the son of Orkay Silk Mills chairman, Kapal Mehra, Jarnnadas Moorjaani of the Crimpers' Association, and embroidery exporter Bipin Kapadia. Statements were taken from Moorjaani and Kapadia. Wadia also recalled a threat from terrorists' which had forced him to withdraw his two sons from their boarding school in the Himalayas at Kasaull in 1987. Nothing but the coincidence that all had at some time or other been in commercial rivalry to Reliance was established.

The police case, as eventually presented to court in October 1990, was that Kirti Ambani was deeply involved in the Reliance fight with Wadia's Bombay Dyeing Ltd for monopoly control of paraxylene. By limiting access to cheap imports, Reliance was trying to force Bombay Dyeing to buy Reliance's surplus paraxylene, on which the price was 280 per cent above the production cost. The two companies were in a 'hectic campaign' over July-September 1988.

After his job as Reliance press spokesman had been largely taken over by Anil Ambani and hired journalists in 1987, lerti Ambani's duties continued to be 'liaison' with customs and excise officials. The police presented one example of such a contact, a former customs inspector named Umedsingh Sarraiya, who in 1974-78 had handled the customs bond placed by Reliance. Sarralya had frequently visited the old Reliance offices at Court House and had been introduced to Kirti Ambani by Dhirubhai's nephew Rasikbhai Meswani, then in charge of customs matters. Sarraiya had continued social meetings with Kirti until 1989, at each other's home, or at small hotels and restaurants around Bombay, with Kirti usually picking up the tab. Other customs officers somtimes joined them. Sarraiya also admitted to police that he had been demoted for graft in the early 1980s, having been caught taking money from a passenger while on duty at Bombay's Santa Cruz airport.

The police alleged that, in November 1988, the bandmaster Babaria had contacted a criminal called Ivan Leo Sequeira, alias Shanoo, whom he had known for a year or so through a mutual friend who played the Hawaiian guitar. Sequeira, then 29, had been convicted of a murder ten years earlier but acquitted on appeal in 1984. In 1988 he was again facing charges of shooting someone, and was on ball.

Babaria had a proposition. A big industrialist was to be attacked and Mied. 'He told me that we would be getting much money in that case,' Sequeira later confessed in a sworn state- ment before a magistrate. Babaria later revealed the target was Nusli Wadia, but did not immediately reveal who was paying, saying only that he was a 'big man'.

On 13 December 1988, Babaria and Sequeira went to the Ritz Hotel in Bombay's Churchgate area to meet Kirti. The Ritz is a small hotel close to the Nariman Point business district, and was frequently used by Reliance and many other companies for middle-level meetings. Kirti had booked a room on the Reliance account, and was generous with company hospitality at the lunchtime meeting, as ten bottles of beer and various snacks were consumed by the three.

Sequeira, introduced as 'Shakil', said Kirti had then discussed the plan to attack Wadia. Kirti gave him newspaper cuttings with photographs of Wadia, as well as Wadia's address and telephone numbers. Sequeira left the meeting and waited downstairs. Babaria came down and Sequeira said he was interested in the job but wanted an advance. Babaria said Kirti had agreed to pay '50 lakhs' (Rs 5 million, then worth about US$300 000) for a successful job.

The next day Sequeira rang Babaria and was told 1Crti had agreed to pay Rs 500 000 in advance. The two met the same afternoon at the Shalimar Restaurant near Babaria's home at Bhendi Bazar. Babaria went outside to a lane and came back with a plastic bag containing Rs 150 000 in cash, which he gave to Sequeira. The police collected evidence of substantial cash withdrawals from Reliance bank accounts around this period, advances made to company employees, adjustment of bad debts, and internal cash transfers. All these tend to suggest of [sic] possible manoeuvring of accounts for dubious expenditure,' the indictment said.

Thereafter, Sequeira dodged Babaria's increasingly anxious phone calls inquiring about plans for an attack. After several weeks, Babaria went to Sequeira's house and told him Kirti was inquiring about

progress. At a second meeting, on 21 February 1989, at the Ramada Inn Palmgrove at seaside Juhu, the three sat drinking by the swimming pool on Kirti's Reliance expense account and again discussed plans for the killing. Sequeira pressed for more of the promised advance, and was duly passed another Rs 150 000 via Babaria at the Shalimar restaurant the next day.

As more weeks went by without action, Babaria came under more pressure from Kirti Ambani. Sequeira said he was evading Babaria's calls to a neighbour's telephone, and instructing his family to tell callers he was not at home. In April, Babaria engaged another criminal named Ramesh Dhanji Jagothia to help carry out the attack. Jagothia was later to surrender to police two pistols made in local workshops, along with ammunition. Babaria also contracted a mechanic named Salim Mustaq Ahmed to steal a car and drive it in an ambush of Wadia's limousine, at an agreed price of Rs 50 000.

Together with Jagothia, Babaria went to Sequeira's home later in April and managed to find him. Babaria pressed Sequeira to get in touch with Kirti, and the next day Sequeira telephoned the Reliance general manager at his office.

'He was very upset,' Sequeira said in his sworn statement. 'He told me he was taken to task by his boss. I told him that I would return the advance money. But he told me that he was not interested in getting back the money. But he was interested in getting the job done.'

In May, Babaria and Sequeira met a very unhappy Kirti Ambani at the Sea Rock Hotel. 'He told me that he was suspecting our intention,' said Sequeira. 'He was upset. He was about to cry He was saying he was unable to face his bosses. I assured him that the nature of the work was serious and if anything goes wrong each one would come in trouble. He was not very happy by hearing all this.'

After this meeting, Babaria pressed Sequeira once or twice, but-according to Sequeira-came to realise that he was not really interested in the job, which Sequeira admitted himself.

'When Babaria approached me with the offer I thought that it was a good opportunity to me to make good money,' he said. 'But when I came to know that the person involved is an industrialist and a prominent figure I realised that it was too dangerous and I decided to back out. However I was knowing that the persons who wanted us to do the job were also connected with industries and it was possible for me to knock out as much money as I can by dodging them. With this idea I knocked from them the sum of three lakh rupees.'

In a later interview, Babaria freely admitted to his role in organising the murder conspiracy, and said that his assembled hit-squad had actually tracked Wadia at three locations with a view to carrying out an attack.

On one occasion they followed Wadia to a bungalow at Khandala, a resort in the Western Ghat mountains inland from Bombay. 'We wanted to kill him but were two hours late so the operation failed,' Babaria said. On the other attempts, the gang tried to catch Wadia outside his home at Prabhadevi, and again outside the Breach Candy Hospital where Wadia had gone to visit the ailing Ramnath Goenka.

Babaria claimed that the advance actually paid to him by Kirti Ambani totalled Rs 1.3 Millon, suggesting that if Sequeira had played his cards better he could have squeezed even more money than his Rs 300 000. This tends to accord with the sudden flush of money enjoyed by Babaria at the end of 1988 and early 1989, when he lavished his wife Hema with gold jewellery bought at top jewellers in the Opera House district of Bombay, bought two old cars and a new sound system for his band, and had a priority telephone installation at his small house in the Bhendi Bazar Police Lines.

The plot came unstuck in mid-July, however, when one of the gang talked about it while drinking in a bar, and was overheard by a police informant. The gang member was taken in for questioning, and revealed the details. As the gang was rounded up, the sensational identity of the alleged target and client of the gang got attention from Bombay's seniormost detective, the joint Police Commissioner (Crime), Arvin Inamdar.

Babaria's new telephone line allowed the police to collect more evidence against Kirti Ambani, by tapping calls between the alleged conspirators. On 22 July they recorded Babaria calling Kirti, and mentioning details of the murder plan. Babaria asked Kirti if he knew whether Wadia was in town. Mrti replied that Wadia was in Bombay because his appeal against the visa decision was fixed for 24 July. Kirti asked about the execution of the plan. According to the police court papers, Kirti said he was 'fed up with only assurances, dates and no results'. The people chosen for the job were not capable and his account should be settled- that is, the advance returned.

Two days later, Kirti is quoted saying that 'neither he nor his boss were interested in the work any longer'. Babaria had been dodging him for nine months, and Kirti had found out from his own sources that nothing had been done to execute the plan. Babaria pressed to be allowed to continue, but Kirti again asked for the money back and told Babaria to get Sequeira to ring him.

Soon after, Sequeira agreed to turn approver, or state witness, and co-operated in an attempted telephone entrapinent of Kirti Ambani. Sequeira rang to ask Kirti if he wanted his Rs 300 000 back. Kirti evaded a clear rely, but the police said it was clearly established that Kirti knew Sequeira (under an alias) and that the money had been paid to him.

When the full implications of the plot became apparent, the detective chief Inamdar briefed Bombay's Police Commissioner, Vasant Saraf. In turn, Saraf took Inamdar and his case file up to Chief Minister Sharad Pawar, who carefully read through all the evidence. Having ordered the special protection for Wadia, he told the police to examine every finding with extreme care. On 31 July, Pawar rang the office of Prime Minister Rajiv Gandhi in New Delhi, and briefed the Cabinet Secretary, B. G. Deshmukh. Pawar said arrests were imminent. 1(irti Ambani and Prince Babaria were picked up the following evening and charged.

Pawar's message had raised the alarm bells in Gandhi's office. As it was clear the Bombay police were too far advanced for their investigations to be called off, Gandhi's advisers turned their efforts to damage control by getting the highly politicised Central Bureau of Investigation (CBI) on to the case.

Later reports said that Pawar himself had suggested to Deshinukh then that, in view of the 'political sensitivity' and 'interstate' aspects of the case, it should be taken over by the central government. Other reports said that Pawar had succumbed to strong pressure from Gandhi's office to make the request. Pawar later insisted it was his own suggestion. Even before the arrests, the Director of the CBI, Mohan Katre, had suddenly arrived in Bombay on I August and started pressing the local detectives for details of the case. On 4 August, the central government issued a notification transferring the case to the CBI.

To the league of Ambani critics, this meant the murder case was destined for the same process of suppression by partisan investigation as the Gurumurthy allegations two years earlier. An action was mounted in the Bombay High Court, in the name of one Professor Ramdas Kishoredas Amin, opposing the transfer to the CBI, and asking for measures to prevent vital evidence being interfered with or deliberately 'lost'. The High Court gave an interim stay order and placed all the records and cassette-tapes of telephone intercepts under the court's own custody.

The central government appealed to the Supreme Court of India, fielding the seniormost members of its Attorney-General's office, backed by hired senior advocates. The bench of three judges decided on August 16 to modify the High Court order, allowing the CBI access to the sequestered records and tapes provided that true copies were kept under seal. The case was left with the CBI, but the chief investigating officer of the Bombay Police was to be associated with further investigation.

Around the same time, the enterprising reporter Maneck Davar of the Indian Express, who later exposed a link between Reliance and the Bank of Baroda chairman (see Chapter 12) found evidence that tended to confirm suspicions that CBI director Mohan Katre was indeed one of 'Dhirubbai's people'. Davar had heard that Katre's only son Umesh Katre had some sort of business relationship with Reliance through a company called Saras Chemicals and Detergents Ltd. Posing as a small industrialist, Davar placed an order for three tonnes of the detergent ingredient LAB. The transcripts of Davar's telephone conversations with Katre junior make it clear that he and Saras were commission agents for Reliance chemical products, so closely related to Reliance that they were able to promise gate passes and receipts directly from Reliance to avoid extra sales tax for the purchasers.

Davar found that the younger Katre was earning Rs 5.4 million a year from his Reliance connection, enough to buy an apartment in Bombay at which the CBI director himself stayed when visiting the city, as well as a Mereedes-Benz car which was then a rare luxury in India.

The CBI director's response was that he had no knowledge of his son's business activities. Arun Shourie commented in the Indian Express: 'Is it possible-and that in an Indian household- that you, the only son, should suddenly start making Rs 5.4 million a year and your father should not know? Specially if, as is the case in this instance, you have no particular qualifications other than being the son of the Director of the CBI to bag such a lucrative agency?'

Shourie recalled a famous court judgement against a state chief minister, Pratap Singh Kairon, making it the duty of senior public officials to investigate rumours or signs that their children were extracting benefits or being given benefits by virtue of their parent's position. The law against corruption fitted Katre to the dot, Shourie said.

As well as recalling Katre's intervention to have the Express critic Gurumurthy arrested under the Official Secrets Act in 1987, Shourie listed five investigations that had been 'buried' by the CBI under Katre's direction. the alleged gift of a Rs 250 million power plant by a foreign supplier; over-invoicing of raw material imports for PTA production; the surreptitious addition of a paraxylene plant to the Reliance complex at Patalganga without an industrial licence; clandestine royalty payments for chemical processes; and the antedating of letters of credit in 1985 to obtain Rs 1 billion worth of foreign exchange.

Katre had not only been assisting Reliance directly, he had been hounding Wadia as well. 'When was the last time you heard of the Director of the CBI sitting at the hearings of a case--even a case as important as say the assassination of Mrs Gandhi or the trials of the worst terrorists?', wrote Shourie. 'But Katre has spent hours and hours personally sitting through, and in a most conspicuous place where the judge could see him, the day-to-day hearings on the case about Nusli Wadia's passport, a case in which the CBI is not even a party!'

,. . . should the agency [the CBI] in the control of and under the direction of this man be handed the responsibility of investigating the conspiracy to murder the man he has been using that very agency to hound-a conspiracy in which is implicated a senior executive of the very business house in whose interest he has been hounding the intended victim of the conspiracy?'

Wadia himself gave no sign of knowing anything about the conspiracy until after the arrests on 1 August. When a reporter rang him for comment about 'the case', Wadia initially started talking about his visa case. But when interviewed by the Bombay Police soon after, he certainly gave credence to the plot. 'In the last eight to ten years there have been certain incidents in the course of our business and that of Reliance Industries,' he said. 'I feel that these incidents could have motivated 1Grti Ambani, an employee of Reliance Industries, to consider me an enemy.'

The Bombay Dyeing chairman went through some of the disputes over chemical imports, the harassment he had faced, and the difficulties caused to Reliance by the Indian Express exposures in 1986-87. 'I am led to believe that it is the impression in the minds of those who manage Reliance Industries that I was associated and involved in the preparation of those articles against them.'

The articles had led to numerous inquiries and the govern- ment's refusal to let Reliance turn its nonconvertible debentures into convertibles, and had been seen as the cause of Dhirubhai Ambani's stroke.

'It is thus apparent ... that those who hold animus against me made one attempt after another to harass me and harm my business interest,' Wadia said. 'Despite all these efforts they have not succeeded in destroying or harming the business with which I am involved and which is professionally managed. This could perhaps have led to frustration in the minds of those wishing to do me harm and made them think of using other methods.'

In a later arnplification to a CBI superintendent in December 1989, Wadia admitted that he had been involved with the Indian Express as ,a friend of Ramnath Goenka, its owner: 'Mr Goenka and I both

shared the same perception that the Ambanis and RIL, their company, had subverted and manipulated the government to such an extent that they were able to have their way in virtually every field through assistance from the government being directed entirely in their favour. This was possible as they had a large number of powerful supporters both among the bureaucrats and politicians in power ... The Indian Express in a series of articles exposed many of the wrong doings of RIL and the favours that were granted out of turn to it. I through my association with the Indian Erpress helped and was indirectly involved in some aspects of the publication of these articles. I was also associated with Mr Gurumurthy who was the author of the said articles.'

Mukesh Ambani, when interviewed by the CBI on I June 1990, was at pains to play down the 'rivalry' with Wadia, and the effect of the 'misinformation' conveyed by the Express. He did not blame the Express articles for his father's paralytic attack in 1986, which he said was a hereditary illness. Kirti Ambani had come directly under Mukesh Ambani, but had no authority to spend large sums of money. About Kirti Ambani's alleged involvement in a case of this type, we came to know through his arrest,' Mukesh said. 'In fact it is hard to believe that we needed or need any retrogative [sic] step for our survival, as a few times back, we were supposed to be close to power.'

In the immediate aftermath of the arrests, the response of Reliance had been to cast suspicion on a counter-conspiracy against the Ambanis themselves and to play up the rivalry angle. As the case is subjudice, we have been advised not to comment on the charges levelled against [Kirti Ambani],' a company press release said on 1 August. 'But [we] would like to state that this appears to be a deliberate frame-up aimed at embarrassing and maligning our organisation at a point of time when one of the group companies is going in for the largest public issue in corporate history It is a matter of great regret that an innocent employee of the company is being dragged into such an unseemly controversy resulting from business rivalry'

Reliance executives had spread the idea that the conspiracy had been cooked up by Wadia, Pawar and the Indian Express group with the simultaneous objectives of nobbling the debenture issues for the Reliance Petrochemicals plant at Hazira, getting Wadia out of his difficulties with visas and raw material supplies, and (for Chief Minister Pawar) striking a damaging blow at Rajiv Gandhi.

They pointed out that Pawar's state government had appointed as prosecuting counsel the senior advocate Phiroz Vakil, who had earlier represented Wadia and Gurumurthy in the Thakkar-Natarajan inquiry into the Fairfax case. (It was not mentioned that Vakil had also appeared against Pawar in another case.) Had they researched the background of Babaria, they might also have pointed out his descent from a long line of police narks. An anonymous note was circulated among press people in Ahmedabad, alleging a history of mental illness in Kirti Ambani's family.

Against a general scepticism that murder was part of the Ambani repertoire-and a belief that, if it had been, the plotting would have been more competent-this frame-up theory found plenty of takers. India is a society inclined to look for the conspiracy behind the conspiracy. Sharad Pawar had been in a squeeze within the Maharashtra branch of the Congress Party. Dhirubhai controlled about one-third of the Congress members of the state assembly and was able to turn on the pressure. Just before the arrests, Pawar had been making overtures to Dhirubhai. At the height of the crisis, Pawar managed to get a call through to Dhirubhai just before midnight one evening. The next day, Dhirubhai was telling his associates that the problem had been solved-possibly referring to Pawar's decision to call in the CBI.

But could the incongruous elements of the murder conspiracy have possibly been set up? An alternative theory was that the plot might have been a case of a follower being 'more loyal than the king'-that Kirti had acted out of an excess of loyalty. The large sums of money paid to Babaria, surely far beyond the personal resources of a middle manager, would then have to be explained.

The revelations about the CBI director Katre's connection with Reliance led the opposition Janata Dal to call for his immediate prosecution for corruption over this 'venal nexus'. But on 27 August, the Home Ministry declared its 'full confidence' in Katre after hearing his response, which was undisclosed, to Maneck Dayar's report. The press allegations were 'motivated and calculated to tarnish the image of the office he holds', a Ministry spokesman said.

The CBI continued to give every appearance of an active investigation, but a fatal flaw had ben introduced by the CBI into the prosecution case. The body of evidence amassed by the police against Kirti Ambani and Babaria was highly circumstantial, drawing on hotel records and bank transactions that backed the alleged sequence of meetings between the conspirators and the transfer of money to the proposed hit team, and on the telephone taps made at a late stage when Kirti Ambani was highly reluctant to take the plot further. Was Kirti the instigator of the plot, or had Babaria trapped him into it?

The crucial additional evidence was the confession of Sequeira, the hit man who had turned government witness. Without his testimony, the plot looked highly improbable and amateur, with Babaria hardly convincing as a hard man of the underworld. Under Katre, the CBI arrested and charged Sequeira as Plotter No. 3-a step which invalidated his earlier testimony to the Bombay Police and completely destroyed any prospect of his testifying in court to implicate the others.

After the initial appearance of 1Crti and Babaria in August 1989, the case disappeared from public view. Soon after the CBI took over, both the accused were allowed bail. Babaria says Kirti Ambani arranged half of the Rs 50 000 he posted. The other characters like Sequeira also got bail, and sank back into the Bombay underworld.

Kirti Ambani was transferred to an obscure position in Reliance Industries and has not appeared in the press since. Babaria continued to live in the police barracks at Bhendi Bazar, but could no longer travel to big-time engagements in Dubai because authorities would not restore his passport. He continued to scrape together a living by organising evenings of 'Bollywood' musical hits, often to collect funds for a charity called the Young Social Group, of which Babaria himself was president.

A pamphlet produced for one such evening in 1996 said: 'Prince Babaria, lately the most controversial international figure for his connection with big industrialists and others, has gained a lot of publicity in the press and TV, locally and internationally. Yet Prince is "The Man of Music and Entertainment" and will always remain loyal to it.'

In 1992, Babaria tested his renown by 'running as an independent candidate for the Kalbadev! constituency in the Maharashtra state assembly, but failed to garner a significant vote. Babaria says Dhirubbai donated Rs 200 000 to his campaign funds.

The conspiracy case has been neither withdrawn nor pro- ceeded with, but remains in judicial limbo. The backlog of many thousands of cases in the Indian court system is a convenient place to bury politicised scandals. Whether the Kirti Ambani episode was a murder conspiracy or a frame-up was never put to judicial test.

A POLITICAL DELUGE

In the second quarter of the year, India aches for the monsoon rains to arrive. The summer has built up into unbearable heat, driving all living things into shade from mid-morning to late afternoon, bleaching the landscape. The ancient rages (songs) liken the searing heaviness to the yearning of the cowherd maidens for the divine youth Krishna. Eventually, the burning landmass of India sends up a giant thermal, pulling in cloud-laden winds from far out in the Indian Ocean. The monsoon works its way up the west coast and across into the Bay of Bengal, the rain front anxiously charted in the weather maps. But for Dhirubhai, the monsoon of 1989 was less a relief than a fore- runner of the political deluges to come.

On 24 July, the monsoon brought cloudbursts to the Western Ghats and coastal hinterland of Bombay. The valleys around Patalganga became channels for the immense runoff; the new industrial zone built right by a river bank was soon under two metres of water. The Reliance factory had no protective flood walls, nor any flood insurance. Its much-inspected machinery was immersed in mud and water for days. It was 'a disaster that threatened the very solvency of Dhirubhai's company, which had just struggled back to real profitability after three years of financial jugglery

It was a crisis that brought back some of the old Ambani magic, recalling the fast assembly of the original polyester yarn plant. Mukesh Arnbani once again assumed direct charge on the spot. Under the direction of its engineers, Reliance brought in an army of contract workers to disassemble the machinery, clean and oil each part, and then put the whole thing together again. The plant was back in operation after one month, a triumph of Indian labour intensity under expert direction. But even this brought its controversy. the Indian Express reported that Reliance was seeking Rs 2.25 billion in concessional loans from the government financial institutions, to finance yet another covert expansion under the guise of rehabilitation. By Septernber, the Syndicate Bank was organising an emergency consortium loan of a more modest Rs 850 million.

Another flood was undercutting the Congress government. V P Singh's decision not to form a new party but to try to unify existing parties, was paying off. In October 1988, the splinters of the old Janata coalition began moving back together, with the merger of the Janata Party and the Lok Dal into the Janata Dal. A month later, the Janata Dal formed an alliance with regional parties from Assam, Andhra Pradesh and Tamil Nadu, called the National Front. As Rajiv neared the end of his five-year term, the National Front formed working relationships with the Left parties and, less trustingly, with the other main force opposing Congress, the Bharatiya Janata P" (BJP)-the Hindu nationalist party which had taken the old Jana Sangh elements back out of Janata. The elections on 22 and 24 November 1989 saw Rajiv's Congress crash from its 415 seats of 1984 to only 192 seats in the 545-member Lok Sabha (lower house).

It was still the largest party, as the National Front had gained only 144 seats. But with support from the BJP's 86 members and the Left's 52, and with Rajiv relinquishing any claim to try to form a government, the National Front was invited to do so. After five days in which a leadership challenge from the veteran Janata leader Chandrashekhar was diffused, V P Singh was sworn in as prime minister.

Though he could not avert the storm, Dhirubhai had taken some steps to protect himself. In July 1989, the Indian sharemarkets saw massive selling of Reliance shares by investment companies controlled by non-resident Indians. They were getting their funds back into foreign currency non-resident accounts, a necessary step towards repatriation and a protection against both a sharemarket fall and a currency collapse. If these were the Reliance-owned companies, it did not necessarily mean that Dhirubhai was selling out his own stock. Reports at the time said two sets of brokers appeared to be working on behalf of Reliance, one set to sell and the other to take delivery

It was a sound precaution: over the two months to the election, the Reliance share price lost a third of its value, against a slight rise in the overall sharemarket. All other Ambani-related stocks (Reliance Petrochemicals, Larsen & Toubro, and various debentures) also fell. The institutions that had once rushed to help prop up his share prices now held back, anticipating a change of government. The investors who had converted their G Series debentures at Rs 72.5 now had a stock worth Rs 70. With some glee, the Indian Express reported that Reliance, 'who straddled the industrial arena like a colossus during the Congress (1) regime, is now facing a winter of despair."

The new goverrunent saw all of Dhirubhai's old opponents back in power. Singh brought back the former Revenue Secretary, Vinod Pande, from rural affairs to be his new Cabinet Secretary The former

Enforcement Director, Bhure Lal, was put on the prime minister's staff as a special officer. The new finance minister was the proponent of public sector investment, Madhu Dandavate, who had also been a leading critic of the Ambani style.

Those seen as friends of Dhirubhai were now on the outer. The new government soon transferred the officials it saw as Dhirubhai's protectors in the Finance Ministry, including the Finance Secretary, S. Venkitaramanan, the Revenue Secretary Nitish Sen Gupta, and the chairman of the Central Board of Direct Taxes, A. S. Thind. The CBI director, Mohan Katre, was retired and the agency set to work on tracking the Bofors and other scandals that had surfaced under the previous government. The Unit Trust of India's chairman, Manohar Pherwani, and the Bank of Baroda's chairman, Premiit Singh, were shifted early in 1990.

The various cases against Reliance were revived. On 12 December, the Central Board of Excise and Customs through its member K P Anand issued a fresh order accusing the Bombay Collector of Customs, IC Viswanathan, of 'Inconsistent reasoning' and 'grave' errors of judgement in his decision to drop the charge of smuggling in the extra polyester yarn plant. Reliance had illicitly imported four spinning lines, and deserved 'severe penal action'. Viswanathan was transferred on 2 January 1990. The new Collector in Bombay, A. M. Sinha, took the case up again before the Customs, Excise and Gold Appellate Tribunal early in February. This time the former Additional Solicitor-General, G. Ramaswamy, who had tried to nail Wadia in the Thakkar- Natarajan inquiry, was back in private practice (while a lawyer who had appeared for the Indian Express, Arun Jaitley, was now in Ramaswamy's old role). Ramaswamy now pleaded for Reliance, seeking a delay in the customs appeal because it was 'personally inconvenient' for him to appear before the summer vacation, and claimed that as one member of the tribunal had been his junior in court, the panel should be reconstituted. The lawyer for the Customs, Kapil Sibal, was having none of this. Ramaswamy said the pressure for an early hearing was part of a 'political vendetta' against Reliance.

Another minor customs scandal was later unearthed. Investigators in the Central Customs and Excise Board found that in November 1982, when Reliance was assessed as owing Rs 312.8 million in duty and a court action had failed, the then Collector of Customs in Bombay, B. V Kumar, had allowed the company to pay in 138 instalments over the next two years, resulting in an implicit interest cost to the government of Rs 30.3 million.2 Kumar was shifted in January 1990 from the Central Board of Customs and Excise.

In May 1990, the Bombay Customs revisited the Reliance plant at Patalganga at less than a day's notice, and took detailed notes on machinery in the new purified teraphthalic acid plant. On 11 May, it issued a new show-cause notice of some 170 pages, alleging that Reliance had imported a PTA plant with a capacity of 190 000 tonnes, against its licensed capacity of 75 000 tonnes a year. The captive paraxylene plant, declared to have a capacity of 5 1 000 tonnes, could actually turn out about 400 000 tonnes a year, according to the Customs evaluation. The under-deciara- tion at the time of import was put at Rs 1. 74 billion, and the duty evaded over Rs 2 billion. The response from Reliance spokesmen was that the charges were part of the same vendetta, promoted by Nusil Wadia. The machinery was all covered by licences, and the excess capacity was authorised under the government's 're-endorsement' Scheme.3

From January 1990, the new government had also been scrutinising the tariff protection given to Reliance. Officials from the Ministries of Finance, Textiles, and Petrochemicals had been studying the import duties on polyester fibres and their inputs, with a view to sharp cuts. According to the press reports, the government saw lower tariffs as the simplest way to cut Reliance down to size: it could be carried out almost instantly with few avenues of legal appeal, and would be politically saleable as a move to cut cloth prices.4 On 25 February, the government enforced a 25 per cent cut in the price of FTA. 1

But it was in the new corporate alliance with Larsen & Toubro that the Singh government managed to hit Dhirubhai the hardest. The financial institutions, which still had a combined 37 per cent holding as against the Ambanis' 20 per cent, were instructed to remove Dhirubhai from the firm's chairmanship. In early April 1990 the Life Insurance Corporation took the first steps towards calling an extraordinary general meeting of shareholders to have all the Reliance nominees removed from the board. On 19 April, Dhirubhai bowed to the pressure and resigned, on condition that the three other Reliance men stayed on the board. A career manager with various public-sector enterprises and banks, D. N. Ghosh, replaced him as chairman. Ghosh's first action was to get Larsen & Toubro to sell off the Reliance shares on which the firm had spent Rs 760 million a year earlier. The sale, at an opportune moment later in the year, actually

made the firm a Rs 170 million profit. The second action was to reduce the lin-iit on supplier's credit to Reliance to Rs 2 billion-and that only to cover work being done by Larsen & Touhro itself The proceeds of the Rs 8.2 billion debenture issue, successfully floated in October 1989, were diverted to Larsen & Toubro's own expansion in cement and machinery manufacturing.

The prize had been snatched away. Dhirubhai was left with a huge gap in his financing for his gas cracker at Hazira, for which costs had escalated from the original Rs 7.2 billion to about Rs 8.46 billion. The Indian financial institutions were talking about bridging finance, but insisting that Dhirubhai first tie up his technical agreements for the plant and get the land transferred from the Gujarat state government. They were also humming and hawing about the special funding for the flood clean-up and repairs at Patalganga. The Reliance share price sank even lower, to levels not seen since the company's early days, hitting a low of Rs 50 in March.

Dhirubhai's new newspaper, launched as the Observer of Business and Politics in December 1989, was not the influential voice that his son Anil and son-in-law Raj Salgaocar had expected. Dhirubhai had taken more direct control himself, as it became clear that the new government was going onto the attack against Reliance. He began to have suspicions about the paper's editor, Prem Shankar Jha, who had been keeping company with Ram Jethmalani, daughter of Dhirubhai's old legal and political foe Ram Jethmalani. Two trusted journalists, R. & Mishra and B. S. Unniyal, were appointed as deputies. Jha himself had been approached by V P Singh in February 1990 to become the prime minister's media adviser, but had asked for six months to make a decision. He returned from a trip to Kashmir late in March to find that two senior writers had resigned over Unniyal's policies. Jha warned Dhirubhai that some 50 of the original 58 journalists were also close to quitting. But within two weeks, Jha himself had decided to quit and told Dhirubhai he was joining Singh's office. 'It was the only time I have ever seen him silenced,' Jha remembers.5 '

The mood at Reliance became ever more defensive. For the public record, Dhirubhai and other figures put a brave face on things. But the tone of the company's anonymous briefings to journalists became one of hurt pride, of a wrongly persecuted victim. Dhirubhai and his boys had recognised that the names Reliance and Ambani required some image work. Kirti Ambani had been hustled out of his public relations role after the murder conspiracy scandal the previous year. The 'corporate affairs' side of the company was greatly expanded, with the recruitment of skilled publicity managers in both Bombay and New Delhi.

In the capital, the vice-president handling government rela- tions, V Balusubramanian, was now working overtime cultivating politicians in the ruling coalition and the parties backing it from the outside. As in 1979, when Dhirubhai helped Indira Gandhi bring down the Janata government, he was now probing for weaknesses and susceptibilities. Both Dhirubhai and key figures in the V P Singh government saw it as a desperate fight to the death. 'There was hardly a day when we did not spend several hours pondering how we might bring down V P Singh,' recalled one senior Reliance executive, about 1990. And I suppose that in his office there were people who spent as much tline plotting how to do the same to US.'6

The government was soon failing apart by itself, in any case. Singh's deputy prime minister, Devi Lal, had unilaterally an- nounced a write-off by the nationalised banks of their small loans to farmers, a step that eroded the capital base of many banks to zero. Lal's son, put in charge of Haryana, was proving a thuggish embarrassment. Thus compromised by his own deputy, the prime minister had tried to pick up the economic liberalisation he had begun under Rajiv Gandhi in 1985, through a drastic shift in the government's investment priorities in the new five-year plan starting in April 1990. The weighting would shift from public- sector industry to agriculture and rural development, where the growth and employment response was greatest. Controls on private investment, domestic and foreign, would be relaxed. The tax system would be simplified and the tax rates eased to win greater compliance.

To help win support for reforms from the many defenders of state-directed industrial investment in the government, the economic adviser in the prime minister's office, Montek Singh Ahluwalia, circulated a paper at Singh's request in June which pointed out that India's rising domestic fiscal deficits and increased dependence on foreign borrowings were taking it towards an external payments crisis. India needed sharp remedial measures-including cuts in public-sector spending, a rupee deval- uation, and recourse to restructuring loans from the International Monetary Fund and the World Bank.

The debate was a political free-kick for the 'bull elephant who had been pushed out of the herd, Chandrashekbar"7 who still thought he was the rightful leader of Janata Dal. A former 'Young Turk' of the Congress Party who had made his exit many years before Singh, Chandrashekhar was the ultimate Indian politico. From a similar upper-caste background to Singh's, but from the mafia-ridden coal-mining district of Dhanbad in Bihar, Chandrashekhar was a man of deals and electoral trade-offs behind a conventional mantle of Nehruvian socialism. With gusto, he attacked the proposals of Singh and Ahluwalia as a sell-out of Nehru's heritage and the enslavement of India to foreign capital. Singh backed down and the resulting statement of policy did nothing to slow India's drift closer to insolvency.

In early August, the prime minister finally steeled himself to sack his deputy Devi Lai. Then, in the pivotal decision of his prime ministership, Singh abruptly announced that, with inunediate effect, 27 per cent of jobs and places in the central government, public-sector enterprises, and colleges would be reserved for candidates from the 'backward classes' (comprising mostly members of the Hindu lower castes). This fulfilled an election promise by the Janata Dal to implement a report com- missioned by the previous Janata government in 1979 from a former chief minister of Bihar, B. P Mandal. It was potentially good electoral politics, as the lower castes were some 51 per cent of the Hindu population. The other parties kept silent, knowing that Singh had beaten them to the biggest of all 'vote banks'.

But the children of the upper castes and of the well-off had no such inhibitions. The Mandal policy intensified their night- mare of finding jobs after graduating, as 22 per cent of places were already reserved for the former Untouchables and the tribal population. Students staged anguished protests in New Delhi streets, provoking a brutal police reaction that saw several shot by volleys of rifle fire. Agitation and confrontations spread across northern India (southern India already had even greater lower- caste reservation policies at state level). In September, students began immolating themselves. Over two months, some 260 people died, either in protest suicides or from police ire.

By then, also, the BJP had resumed its own appeal to the hearts of Hindu Indians, through a cult built around the warrior-divinity Ram of the Ramayana epic. The BJP, and other groups spawned by the Rashtriya Swayamsevak Sangh, asserted that Ram was a historical character, and that a small mosque built by a general of the Muslim emperor Babar in 1532 in the northern town of Ayodhya had displaced a temple marking Ram's actual birthplace. The ideal of Ram was supposed to cut across caste barriers-attributed to a later 'distortion' of true Hinduism-and to dispel residual defeatism among Hindus after their centuries of foreign conquest and colonisation. In September the BJP began a countrywide ‘march' on Ayodhya to press for the mosque's replacement with a new Ram temple. Murderous violence broke out between Hindus and Muslims through the next two months.

Singh had not prepared India for his new Mandal policy, and failed to justify it afterwards. He looked remote and indifferent to the bloodshed in the streets. His timing looked opportunistic, designed to steal Devi Lal's thunder. Many of the New Delhi journalists were themselves of upper-caste, privileged back- grounds, and took strongly partisan attitudes against V P Singh. The Mandal reservations and the widening gulf with the BJP put Singh on opposing sides to key figures in his earlier attack on Reliance. Gurumurthy had become a close adviser to the BJP leader, Lal Krishan Advani, while Arun Shourie, the editor of the Indian Express, was vehemently opposed to the new reservations.

As the Singh goverrunent was weakened, Dhirubhai's fortunes revived. The turn could even be plotted on a graph of the Reliance share price, which began rising steadily from July 1990. The government was distracted by its numerous splits and battles. The customs cases had been successfully bogged down by petitions seeking a stay of proceedings in the Delhi High Court. It was clear that further legal appeals could delay a final judgement for a decade or more. Aides like Vinod Pande, who pressed V P Singh to make a concerted effort to expose and tame Reliance while he had the chance, found the prime minister abstracted and diffident. Dhirubhai had also won over a crucial supporter of the government, the Marxist chief minister of West Bengal, Jyoti Basu, by announcing plans for a big new polyester factory in his state under a newly created subsidiary called Reliance Bengal.

Although it was obliged to report mounting contingent liabil- ities over its customs and excise cases, Reliance was climbing back shakily from its setback of 1986 and 1987 as the Indian economy raced into high growth under pressure of big government deficit spending and raised imports financed by borrowing. After the 18-month 'year' of 1987-88, Reliance had had a nine-month year for 1988-89 (july-March) in which net profit of Rs 793.7 million was reported. In September 1990, Dhirubhai convened shareholders at

a Bombay auditorium for his annual meeting. The profit for the 12 months of 1989-90 (April-March) was Rs 905 million, a drop of nearly 15 per cent in annualised terms, but due to the provision of Rs 440 million for the flood damage at Patalganga.

The meeting saw Dhirubhai paint his big pictures again. But for the first time, he faced hostile interjectors and heckling. Shareholders complaining about the recent lack of bonus share issues, and shouting charges of financial wrongdoing by the management, pressed towards the podium, which was soon full of security guards ringing the directors. The pandemonium forced an adjournment.

In September, as it became more obvious that Singh was losing support, Chandrashekhar began mustering support for a revolt within Janata Dal, and making overtures to Rajiv Gandhi's Congress Party. By early October, nearly 30 of the party's MPs were listed as disaffected in newspaper reports. On 23 October, the Janata Dal state government in Bihar stopped the BJP leader Advani's own march on Ayodhya, and the BJP immediately withdrew support from V P Singh's government. The BJP con- tinued to send thousands of devotees into Ayodhya, culminating over 30 October-2 November in a suicidal assault against Uttar Pradesh armed police ordered to defend the mosque by the state's Janata Dal chief minister, Mulayarn Singh Yadav.

While all this was happening, Chandrashekhar and Rajiv Gandhi continued their efforts to split Janata Dal away from Singh. Dhirubhai was among four leading industrialists who financed their campaign, in which the going rate for a defection was said to be Rs 4.5 million. On 7 November, 55 of the party's MPs, or about one-third of its parliamentary membership, voted against the government. After a day of stormy debate, Singh resigned and three days later Chandrashekhar was sworn, in as head of a minority government supported from the outside by Congress. Reliance shares leapt to their highest point in more than two years, to Rs 240.

When Dhirubhai reconvened his adjourned shareholders meeting on 13 November, this time at the Wankhede Stadium where international cricket tests are held in Bombay, the more friendly political environment seemed reflected in his less defensive mood. The critics were still there, asking for a bonus, but Dhirubhai said their rights to debenture issues had been a kind of bonus. To questions about use of corporate funds in toppling the V P Singh government, Dhirubhai said such reports were 'conjecture'. The new political setup had emerged without theambani hand, he said.

First half results showed that Reliance was on the way to displacing Tata Iron and Steel as India's most profitable company in 1990-91. To help build its new gas cracker, which would continue the growth, Reliance was now proposing two new bond issues, raising Rs 4.56 billion in convertibles and a further Rs 1. 14 billion in nonconvertibles. This would replace the lost supplier's credit from Larsen &L Toubro.

The new prime minister, Chandrashekhar, had gained a poisoned chalice, however. By allowing the Ram devotees to under- take token work on their new temple at Ayodhya, he put off the final confrontation (which was to take place in December 1992, when massed zealots demolished the mosque), and the conimunal violence gradually tapered off. But the postponement of the economic reforms he had so opportunistically engineered in mid-year now rebounded against him. The New York credit rating agencies had lowered their rating of Indian sovereign debt in August. Iraq's invasion of Kuwait sharply pushed up India's oil import bill, while some three million Indian workers had to be evacuated from the Gulf at government expense and their remit- tance income was then lost. Singh had approached the IMF for an emergency loan in October. In December, Chandrashekhar took up the request and gained US$1.8 billion in emergency credit, on condition that New Delhi took steps to cut its deficit and deregulate the economy. Always the pragmatist, Chandrashekhar swallowed the medicine that he had said would enslave India. His finance minister, Yashwant Sinha, began draw- ing up a budget for 1991-92 (April-March) which had to include cuts in consumer subsidies and reduced public-sector investment.

Rajiv by then was alarmed, both at the appearance of com- petence Chandrashekhar was showing and at being seen support- ing unpopular measures. He feared Chandrashekhar would take any political credit that was going, and palm off the blame on to Congress. He decided it was time to make his own move for power. At the end of February 1991, Rajiv forced Chandrashekhar to postpone the budget for three months and to introduce a temporary finance bill which made only minor fiscal adjustments. On 6 March, Rajiv forced Chandrashekhar to resign. The President appointed Chandrashekhar as caretaker prime minister and set fresh national elections for late May.

The deferment of the budget caused the IMF to stall any further external financing until after the elections. Non-resident Indians began withdrawing their government-guaranteed foreign currency deposits with the Indian banks, a capital flight that was to take out a billion dollars by June. With foreign reserves below US$1 billion, less than two week's import cover, the caretaker government authorised the Reserve Bank of India to apply emergency measures, which it did in March by virtually halting imports and sharply raising interest rates to around 20 per cent. The economy shuddered into recession.

Meanwhile' the initial optimism about Reliance's prospects under the Chandrashekhar government had been dissipating as Chandrashekhar showed little urgency in reversing the policy changes made by V P Singh.

Dhirubhai's friends had begun to move back into positions of economic and financial control. The former finance secretary, S. Venkitaramanan, was made Governor of the Reserve Bank of India as a matter of priority, replacing R. N. Malhotra. Several accounts say that Dhirubhai's lobbying was decisive. In Novem- ber 1990, even before Chandrashekhar was sworn in, Dhirubhai had told one diplomatic visitor: 'Mr Malhotra will be replaced shortly and the new RBI governor will be Mr S. Venkitaramanan.' Dhirubhai indicated that it was his recommendations

In March 1991, Venkitaramanan had in turn appointed the former Unit Trust of India chairman, Manohar Pherwani, as the chairman and managing director of the central bank's housing refmance subsidiary, the National Housing Bank.

But Larsen &- Toubro had remained outside Dhirubhai's con- trol, even though in January a junior minister assisting Chandrashekhar, Kamal Murarka, had observed that Larsen & Toubro was Ainbani's company'. Reliance was holding back its new debenture issues because it saw a weak reception in the market, though ostensibly delays in approvals were cited. With cost overruns in the Reliance Petrochen- iicals plant at Hazira, let alone the future gas cracker, it still badly needed the supplier's credit. To rub in the loss, Larsen & Toubro's chairman, D. N. Ghosh, had started the new year by writing to Dhirubhai pointing out that Reliance was late in paying Rs 1 billion on bills for work done by Larsen & Toubro. MukeshAmbani lamely replied nearly a month later, claiming that Larsen & Touhro itself was behind schedule in some work.

On 15 February, Ghosh had resigned at the request of the government. But the resulting uproar in the newspapers- Gurumurthy wrote under the headline 'L & T under hijack again'-had caused the financial institutions to delay a board meeting to appoint a successor. Before Reliance could overcome this hesitation, the government had fallen and the appointment had come under the rules banning a caretaker administration from making major appointments. The plum had stayed just out of reach.

Chandrashekhar and his ministers had been proving unruly clients in any case. The Reliance political lobbyists in New Delhi faced constant demands for cash to keep the government's small band of MPs from defecting again. As the minority government became shakier in February, the scramble for funds became even more desperate. Eventually, the Reliance political team were getting almost daily demands for large bundles of cash from Chandrashekhar's office and his key political managers such as the law minister, Subramaniam Swamy. The dependence on one capitalist was a particular irony in the case of Chandrashekhar: as one of the 'socialist' Young Turks in the Congress Party of the late 1960s, he had led the attacks on the industrial licences awarded to the Birlas that had caused the 1969 Hazare inquiry

While the economy slowed down, the politicians fanned out for an election held, unusually, in the hottest months of the year. The results from the first of three days of voting, on 20 May, showed that Rajiv Gandhi would not have achieved the same comeback as his mother had done in 1980. Congress would have slid back even further from the 1989 result of 192 seats, to perhaps 160 seats out of 544 in parliament's lower house. It would still have been the biggest party, and Rajiv would have tried to govern with the support of smiler parfies while an enhanced BJP waited to topple him.

But that was not to be. On 21 May 199 1, as Rajiv campaigned in Tamil Nadu for the next round of voting, he was killed by a suicide bomber. That created a sympathy wave in the later stages that gave Congress an increased tally of 226 seats, and Rajiv left a well-planned strategy for economic reform that applied the measures advocated since 1990.

Whether Rajiv might have changed his business friends yet again is something that will never be known. The Bofors scandal was still very much alive, and he would have spent his second term keeping a lid on it. But a tantalising indication that he might have changed his view of Dhirubhai comes from an account of a meeting between Rajiv and Nusli Wadia in early May 1991, about three weeks before Rajiv's death.

Wadia had a call from Rajiv early in the week, asking for a meeting. Wadia was busy preparing for an important business trip overseas the following Saturday, but Rajiv insisted. So, after completing his work, Wadia flew up to Delhi on the Friday evening, arriving at Rajiv's heavily guarded bungalow on janpath about 11 pm. It was their first meeting since the Fairfax affair, and both men were edgy.

Rajiv opened up by complaining about the Indian Express sniping which continued against him. Wadia exploded. This was nothing compared to what Gurumurthy and he had suffered: arrest, harassment by the bureaucracy, constant inspections, his passport and visa problems, and finally the murder conspiracy. Wadia asked Rajiv why he had refused to see him when the forged Fairfax letters were announced. Raiiv said he was not aware of any approach. Wadia said he must have known. It was general knowledge that Rajiv's secretary, V George, to whom he had spoken, always took in requests for meetings for Rajiv to tick or cross off.

Rajiv explained that once the Thakkar-Natarajan inquiry was appointed he was committed to a course of action. He also reminded Wadia about the 'detective' asking questions in Switzerland. Wadia pointed out that this was part of the whole forgery plan. Did Rajiv appreciate, he asked, that his panicky decision based on the forgeries-this one avoidable thing-had started the whole confrontation that ultimately brought the downfall of his government?

The conversation went on past midnight. Refreshments, coffee and soft drinks and sweets were sent in as the two men talked on into the small hours. Wadia must have abandoned plans to find a hotel room. Finally the napping aides in the hallway heard a flurry of voices. It was about 5.30 and the first light was coming through the tall neem trees and bougainvillea in the garden. Rajiv and Wadia came out into the portico and stood waiting while Wadia's driver was roused. Before Wadia turned to get into his car, he and Rajiv shook hands. It was evident that they parted as friends once again.

Wadia went straight to the airport and took an early morning flight back to Bombay. That evening he flew out of Bombay to Europe. He was still abroad three weeks later when he heard that Rajiv had been assassinated.

UNDER THE REFORMS

After the shock of Rajiv Gandhi's murder, the Congress Party, chose an elder as its new leader. P V Narasimha Rao had been in the top circles of power for much of a long career in politics. He had handled the Ministries of Home Affairs and External Affairs with great skill under Indira and Rajiv, and his intelligence and erudition (in nine Asian and European languages) were undoubted. But after an undistinguished stint as chief minister in his home state of Andhra Pradesh had been judged lacking in the charisma needed for the prime ministership. In 1991 he was already 70 and was preparing to retire from parliament when the party installed him as a stopgap chief.

But those who expected an early leadership fight within Congress or an early return to the polls had reckoned without Narasimha Rao's rejuvenated taste for power or his gift for intrigue, which was Kautilya (the 3rd century BC Indian 'Machiavelli') applied in a modern setting. From his minority starting point in parliament, Narasimha Rao steadily built up a Congress majority by attracting defectors from opposition parties, and managed to serve out his full five-year term.

For the first two years at least, Narasimba Rao provided the political umbrella under which the long-delayed economic reforms could he introduced. India in 1991 and 1992 illustrated perfectly the adage that 'bad times make good policies'. To carry them out, Narasiniha Rao installed as finance minister the career government economist Manmohan Singh, who had reached the bureaucratic pinnacles of the ministry as Finance Secretary and then central bank governor in the 1980s. The Cambridge-educated Singh had spent much of his earlier career helping to construct the edifice of government-planned investment. But then a spell making a comparative study of the world's less-developed economics for the South Commission, a body representing many developing nations, had crystallised some doubts and begun a Pauline conversion in him towards market-based allocation of resources. Singh was soon backed by the elevation of Montek Singh Ahluwalia, (the economist who wrote the 1990 reform paper) as Finance Secretary The two Sikhs, almost invariably in austere grey-blue turbans, became the public face of reform.

Within a few days of the government taking office at the end of June 1991, Singh devalued the rupee by 20 per cent to encourage prompt repatriation of export earnings. In the deferred budget for 1991-92 (April-March), delivered at the end of July, he abolished licensing in most industries, raised fertiliser prices to cut subsidies, warned that loss-making government enterprises would not be supported indefinitely, and relaxed controls on foreign investment. The second budget, at the end of February 1992 for the 1992-93 year, carried forward the policies and pointed towards an Indian economy opened to global trade and investment flows by the end of the decade or even sooner. The rupee was made largely convertible on the current account, meaning its exchange rate was to be set increasingly by the market, and more import items were transferred to the open list. Import tariffs, which had once ranged up beyond 300 per cent, were to be no more than 110 per cent and much lower for capital goods. Foreign companies were welcomed into the petroleum sector from the wellhead to the petrol pump. The policing and pricing of new share and debenture issues by the Controller of Capital Issues was abolished, with vetting for fraud taken up by the new Securities and Exchange Board of India. Indian compa- nies were permitted to issue convertible securities overseas, such as Eurobonds, and foreign portfolio funds were to be allowed to buy and sell shares directly in Indian markets. 'We must not remain permanent captives of a fear of the East India Company, as if nothing has changed in the last 300 years,' Singh declared in his 1992 Budget speech. 'India as a nation is capable of dealing with foreign investors on its own terms. Indian industry has also come of age, and is now ready to enter a phase where it can both compete with foreign investment and also co-operate with it.'

The first test of how helpful the new government would be to Reliance came less than a month later. On 26 July, the company's subsidiary Trishna Investments had used its substantial sharcholding in Larsen & Toubro-then about 18 per cent even after it had returned the 7 per cent stake acquired through Bank of Baroda Fiscal to quell criticism in 1989-to requisition an extraordinary general meeting of shareholders a month later. The meeting was to vote on two motions: that Mukesh Ambani be made the company's managing director, and that Dhirubhai be reinducted to the board.

The prize was another shot at the blue-chip's cash. The funds from Larsen & Toubro's 1989 debenture issue had not yet been deployed, because of a court action and then a need to get government clearance for a change from the originally proposed use. Dhirubhai was still desperately short of funding to complete the petrochemical complex at Hazira and move on to the new gas cracker. The financial

institutions were frowning on a revival of the supplier's credit plans, and in May 1991 Dhirubhai had let it be known that he was expanding Reliance's own new debenture issue from Rs 5. 7 billion to Rs 9 billion. But he had still not gone to market with it. Larsen & Toubro was still dangling for the taking.

'With friends in the government,' commented one newspaper writer, 'they [the Ambanis] are unlikely to have problems." Others were not so sure. 'Times are such that no bureaucrat will openly come out or do something which is perceived to be blatantly pro-Ambani,' noted Business India.2 Dhirubhai indeed had many friends in the government or in the Congress leadership, including old Indira or Rajiv loyalists such as R. K. Dhawan and Satish Sharma. But Narasimha Rao was too cautious and in too precarious a political position to give direct favours, and the Finance Ministry now had the strict Manmohan Singh in charge.

In a drive reminiscent of his old debenture placement campaigns, Dhirubhai began canvassing Larsen & Toubro sharehold- ers to give Trishna their proxies to vote at the meeting. The takeover in 1988 had given Reliance two vital footholds, which the Singh government had not dislodged. A former assistant company secretary at Reliance had been installed as Larsen & Toubro's secretary, and Reliance Consultancy Services had been made the company's share registry in place of a Tata Group firm. It meant that Reliance had no trouble in getting all details of the shareholders. Over the month before the 10.30 am meeting on Monday, 26 August, about 200 agents for Reliance collected some 107 000 proxies. By the weekend before the meeting, Dhirubhai and his team were convinced they had Larsen & Touhro in the bag and were already celebrating. Mukesh had re-signed as executive director of Reliance, ready to take over as vice-chairman and managing director of Larsen & Toubro.

The renewed takeover attempt was a trumpet call to the Ambani critics of five years earlier. The Indian Express, Nusli Wadia and Ram Jethmalani A made &antic attempts to convince ministers and officials that it would be improper to let this corporate jewel fall to the Ambanis.

A new press war broke out, with each side going to the extent of questioning the other's patriotism. In the Express, the Bombay publisher R. V Pandit pointed out that Larsen & Toubro carried out vital defence work, seeming to suggest that the Ambanis could not be trusted with national secrets. Dhirubhai's Obserier of Business and Politics recalled that Wadia was the grandson of Jinnah, founder of Pakistan.

Until the last minute, the government was disinclined to give any particular instruction to the financial institutions on how to vote their huge sharcholdings. Jethmalani had failed to get a court injunction halting the meeting, and was to fail again at an application to a judge at his residence on the Sunday morning.

However the Ambani critics had been collecting testimony from some Larsen & Toubro shareholders that their names had been taken as proxies by Trishna without their consent. By the end of the last week, they were alleging forgery of proxies on a massive scale (a formal legal complaint, filed in September at a Bombay magistrate's court by one Madan Gopal Jajoo, was to allege that about 84 000 of the 107 000 proxies were forged). Wadia contacted the then Janata Dal MP George Fernandes on the Saturday afternoon, and got him to table a faxed message about the alleged forgeries in parliament just before it adjourned.

The opponents of the takeover managed to get through several messages to Narasimha Rao's senior staff, who appeared startled by the warnings that the government could be seen as party to a forgery in a case that might be heading to court. The pressure worked. The Cabinet Secretary came back with the response that the institutions would maintain the status quo at Larsen &- Toubro.

It was then a matter of seeing that the instruction got through to the institutions in time. On Sunday morning calls to the chairman of the Life Insurance Corporation found he knew nothing about the decision. The cabinet office was then prompted and it assigned an officer to the job in a special 'control room' to circulate the decision to the chairmen of the institutions. At 8.30 on the Monday morning, two hours before the meeting, the LIC chairman spoke to Mukesh Ambani and told him as gently as possible that unless the motions were withdrawn the institutions would vote against them.

Shareholders were already packing into the Biria Matashri Auditorium, close to the downtown Churchgate suburban rail terminus. It was too late to call off the meeting. The Larsen & Toubro directors,

including Mukesh and Anil Ambani, appeared on the podium, and pandemonium erupted. Unaware of the Government's decision, agitated shareholders rushed the microphones set up in the aisles and fired off volleys of questions and accusations. There was cheering and jeering by rival factions. The directors were shouted down as they tried to speak. Eventually they gave up and retreated behind the back curtain to exit the auditorium through a stage door. A swarm of shareholders surged onto the surrendered stage.

The shouting continued for half an hour, but it was all over. Dhirubhai had suffered what he later told close confidants was his greatest defeat. The government institutions went on to appoint a seasoned Larsen & Toubro executive as the new chairman. A Supreme Court ruling in May 1992 cleared the way for conversion of the 1989 debentures, diluting the Reliance stake down to about 8 per cent, the company's original entry level. The alleged forgery of proxies was never fully investigated. Bombay police prepared to raid the godown where Reliance had stored the proxy forms, but were called off by the Maharashtra chief minister's office half an hour before they moved in.

Within Reliance, the failure was a sobering lesson that times were changing for Indian business. The government could no longer so obviously play favourites if it wanted to entice foreign investment. The value of licences had gone. Tariffs and excise duties were still high, but the trend would be to lower and uniform rates. Financial markets and institutions would have their transactions and performance scrutinised in public. The 'level playing field' was the motto of the times. The transformation had just begun, but this was the way it would be, sooner or later.

The implications for industries like Reliance was that their production would have to attain world-competitive cost levels by the time the economy was fully opened. His expansionary vision had put Dhirubhai in a good position. Whether by 'smuggling' capacity or not, his polyester and petrochemical plants were the largest in the private sector and had the best economics of scale. By getting in early with his petroleum projects, he could keep his capital costs down and be ready for the time when the sector was deregulated and prices were brought down to world market levels.

Dhirubhai and his sons astutely portrayed themselves as part of the new India, raw-spirited capitalists champing to have the bridles of failed Nehruvian socialism taken off. The foreign investment funds had,already had their eye on Reliance since the boom of 1985. In September 1986, the business magazine Forbes, which refers to itself as the 'capitalist's tool', ran a four-pagg profile of Dhirubhai which described him as 'a mixture of Ted Turner [the founder of the cable TV network CNNI and Horatio Alger [the 19th century American inspirational novelist whose writings put the notion of success through hard work]'. It shrugged off the controversies raging around him at that time. Since then, many more business journalists have profiled Dhirubhai for the world's press, and have usually taken his word that he has been dynamic and his rivals 'complacent'.

The investment fund managers who flocked to Bombay from Hong Kong, Singapore and London from the end of 1991 were also inclined to overlook the 'colourful' past. 'Someone who can smuggle in a whole factory clearly has something going for him,' one Kleinwort Benson researcher remarked at the tiMC.3 Imbued with the notion of 'emerging markets'-forgetting that Bombay's stock exchange, set up in 1875, was among the world's most established-the fund managers had reached India after selling their clients on the business ventures of Thai and Indonesian generals, Chinese People's Liberation Army units and East Asian dynasties newly listed on new stock exchanges. India was a cinch by comparison. Soon research reports were piling up, pointing to India's large middle class and its hidden savings, the basic soundness of its British-style legal and corporate institutions, the sHI of its top administrators and managers, and the political safety valves in its complex but democratic political system.

Even before the first foreign portfolio funds were authorised to invest from mid-1992, the Indian sharemarkets had enjoyed a spectacular boom and crash on the euphoria generated by the reforms. The unprecedented bull run in Bombay saw the market's capitalisation (the total value of shares in the 6000 listed companies) rise from Rs 756 billion in March 1991 to Rs 2764 billion in March 1992.

The source of the funds puzzled Finance Minister Singh and many of his officials, given that the central bank was still applying a tight liquidity squeeze, with interest rates around 20 per cent, as part of its attack on the external payments crisis. Then it was discovered that bank reserves were being turned into speculative cash. To help finance the huge government deficit, commercial banks were obliged at that time to keep a total 54.5 per cent of their deposits in government securities and cash. To make more profit from

this compulsory investment, the banks traded and swapped their holdings of bonds issued by the treasury or government corporations in search of higher yields. Changes in interest rates would raise or lower the market value of bonds carrying rates fixed at earlier times. The deregulation of interest rates on bonds early in 1991 allowed public-sector enterprises to offer much higher rates on new issues, so the market value of their existing bonds fell sharply.

At the end of 1991, banks were more keenly trading their securities in search of higher yields. Banks were the only parties authorised by the Reserve Bank of India to trade in 'gilts' (government securities), but several brokers had established themselves as trusted middlemen for particular bank treasury departments. The RBI was ill-equipped to control this growing market. Its register of who owned which gilts at any time was through handwritten entries in Dickensian ledger books at its old building in Bombay, and new ownership notes were posted out to banks. To speed up their transactions, the banks and brokers developed their own informal system outside the central bank's aegis through the use of chits called 'banker's receipts' or Rs which were simply certificates issued by the banks themselves indicating that they owned the securities being sold.

At the end of April 1992, it was revealed that many of the BRs were not backed by securities at all. And the brokers, among them a young Gujarati named Harshad Mchta who had earned the sobriquet 'the Big Bull' from his aggressive sharemarket purchases, had been diverting the huge settlement cheques pass- ing through their hands, on the way from bank to bank, into their own accounts. While on such unauthorised 'loan', the funds were put into the sharemarket. An article in The Times of India by a young business reporter, Sucheta Daial, brought the circus to a stop on 23 April. Several Indian and foreign banks were left short of some US$1.4 billion worth of securities in their vaults. The sharemarket collapsed, inquiries and prosecutions launched and the new Securities and Exchange Board of India (SEBI) had a perfect excuse to bring Bombay's clubbish stockbroking fraternity to account. By late 1993, the market bounced back as international investors discovered the 'India story' en masse and prices climbed to a new record in September 1994.

The 1991-92 boom helped Dhirubhai quickly overcome his Larsen & Toubro disappointment.. In August, the Controller of Capital Issues (the post was abolished six months later) cleared the expansion of the Reliance debenture issue, from the previous Rs 5.7 billion to Rs 8.583 billion, plus the right to retain 15 per cent oversubscription. At a total Rs 9.87 billion it exceeded any previous issue in India. Split into three series of bonds-one convertible, one convertible with detachable warrants to buy shares, and another straight nonconvertible-it was more compli- cated than any of the previous issues, but was successfully put to the market over November and December. In April 1992, Reliance also rolled over its F Series debentures from 1985 for another seven years, offering investors a warrant to buy a Reli- ance share with the renewed debentures.

Dhirubhai had actually fared rather better under V P Singh's prime ministership and its aftermath than he had under Singh's tenure in the finance portfolio. Reliance's results for 1990-91 (April~March) showed a tough year, but sales had grown 13 per cent to Rs 2 1.05 billion and net profit 39 per cent to Rs 1.25 billion. The dividends were still a (for Reliance) low 30 per cent of the basic Rs 10 share, and a bonus issue was out of the question. The new year, 1991-92, had started out with little growth in sales or profit, given the brakes on the economy. But Dhirubhai asked his shareholders, at their annual meeting in October 1991, to look at Reliance's massive projected expansion now that licensing had been removed on nearly all the company's products.

This meant that the existing Patalganga plant would be further expanded to 'International size' and its supplies of napththa and kerosene would soon come by pipeline from the Bharat Petro- chemicals refinery at Chembur, whose own plans for downstream expansion had been virtually pre-empted by Reliance. The new petrochemicals complex was coming up by the Tapti River at Hazira, on the former tidal flat reclaimed by use of a massive Dutch dredger and extensive piling. Its monoethylene glycol plant came into production late in 1991, and its polyvinyl chloride and high-density polyethylene plants were expected on stream during 1992. But the cost had blown out some 70 per cent from the original Rs 10 billion because of the rupee's devaluation and the failure of government authorities to chip in their share of the power plant and jetties. Financially, the subsidiary Reliance Petrochemicals was struggling.

At this point, Dhirubhai decided to merge the petrochemicals arm back into the parent company. The shareholders of Reliance Petrochemicals approved the move at a meeting, in August 1991, held at

Hazira where not too many of the 2.4 million stockhold- ers could have turned up. The meeting also allowed the early conversion of the remaining portions of the company's big debenture issue and the issue of fresh shares to the Reliance parent company at par in payment of a loan from it. The merger was announced as a decision by both boards on 28 February 1992, and made effective from 1 March. Three of Bombay's leading chartered accountancy firms recommended a swap of 10 Reliance Petrochemicals shares for one Reliance share. It meant that Reliance acquired the massive assets of the subsidiary at a discounted price, and from 1992-93 was able to add its growing production stream to its own sales or keep them in-house at cost for use at Patalganga. The depreciation benefits of the subsidiary's investment were transferred to Reliance, where they were a shield against corporate income tax for several years. Reliance's profits indeed showed a strong leap the next year. The 1991-92 year had finished strongly, showing a 30 per cent rise in profits to Rs 1.63 billion. The merged group nearly doubled profit in 1992-93, to Rs 3.21 billion. Reliance shares had risen high again, so few of the subsidiary's old shareholders were complaining.

In December 1993, Dhirubhai announced that a duplicate of Patalganga would be added to Hazira in a second polyester-PTA complex. Another 350 000 tonnes a year of PTA plus 120 000 tonnes of polyester yarn, 120 000 tonnes of polyester staple fibre and 80 000 tonnes of the bottle-making plastic PET would be ready in two years. In September 1993, he had also entered a joint venture with ICI, Terene Fibres India, to take over ICI's 30 000 tonne a year polyester fibre plant at Thane, outside Bombay. The three polyester works would make Reliance the fourth biggest producer in the world (after Germany's Hoechst, America's Du Pont and Taiwan's Nanya), and the only one with production integrated from napththa down to fabrics.

The integration was to move even further back 'upstream'. In February 1994, Narasimha Rao's cabinet decided to award three oil and gas discoveries in the Arabian Sea to a consortium involving Reliance with the Houston-based Enron 011 & Gas Corp and the government's own Oil & Natural Gas Corp, which had discovered and delineated the fields but did not have the funds to develop them. Two of the fields, Mukta and Panna, contained an estimated 265 million barrels of oil, and the third, Mid and South Tapti, some 67 billion cubic metres of gas. Cost of development was put at Rs 38 billion (then about US$1.25 billion) of which Reliance was responsible for 30 per cent. Enron would be the operator initially, but would transfer the role after five years to Reliance.

The results for 1993-94 showed Reliance had edged past the Tata Iron & Steel Co, founded in the first decade of the century, to become India's largest company measured by annual sales, operating profit, net profit, net worth and assets. Its 2.4 niillion shareholders were the most widely spread equity base of any industrial company in the world.

Dhirubhai's return to stockmarket leadership was marked by a resumption of the journalistic accolades cut off in 1986. The magazine BusinessIndia put him on its cover as its Businessman of the Year for 1993. 'With no business background to speak of, Ambani has emerged as a symbol of the New Indian Dream and his success has rewritten the conventional code that only the rich can get richer,' it said. Dhirubhai had set the example for a host of industrial clones: 'The last decade saw the rise of an altogether different entrepreneurial breed on the industrial scene; one that was impatient to get ahead, willing to take risks and wend its way through the regulatory maze, displaying an entrepreneurial zeal that somehow seems to have evaporated in the more established business houses.' Mile it galled some that he seemed to have crossed A limits in influencing politicians, Dhirubhai's supporters said he didn't do anything different from others. The business environment compelled it, and it was no use singling out any one person.,Anil Arnbani was quoted as saying: 'Perhaps my father's only fault has been that he thought too big and clearly ahead of his time.'

But even as it was coming back into a single image, Reliance was creating new windows on the screen.

In the main picture was the gas cracker at Hazira, consuming much of the parent company"s financial resources. It was running years behind schedule (it eventually came on stream in the 1996-97 year, some three years late), but this had been due to 18 months of delays in getting the final licence issued after the November 1988 letter of intent from the government. Then it had been decided in 1992 to expand its capacity to 750 000 tonnes a year of ethylene (from 400 000 tonnes).

Because of this burden, any other new projects would have to be started off the Reliance books. In 1992, Reliance came out with two new subsidiaries. Two of its associated investment companies had been transformed into Reliance Polypropylene Ltd and Reliance Polyethylene Ltd to build new plants making those products within the Hazira complex. The need for separate companies was explained by the equity involvement of the Japanese trading house Itochu (the former C. Itoh & Co) which was to put in US$50 million for a 15 per cent stake in each firm, making it the biggest investment planned by a Japanese firm in India at that point. The issue of equity shares and optionally full convertible debentures in November 1992 was wildly oversubscribed: the share issues by around 100 times in each case and the debentures by three to four times. All in all, about 10.5 million investors offered Rs 34.43 billion. Dhirubhai was able to keep Rs 3.25 billion for each company, and the rest was a 15 per cent loan until it was refunded by mid-March 1993.

Even before they were born, the Reliance 'twins' were the cause of controversy. The Securities and Exchange Board of India had noted that their shares were being ramped on the Bombay Stock Exchange, and insisted that the prospectuses carried the warning: 'The current market price of the shares is not a true indication of the actual worth of the shares as the current market price is only as a result of circular and thin trading among a smaller number of interested parties.' But SEBI found this had occurred before it issued its new stockmarket regulations. The problem was shuffled over to the Bombay exchange, which identified the brokers involved but did not press penalties. The 'twins' later became problem children.

Dhirubhai had also begun setting up a new company to carry out his biggest dream, building a full-scale oil refinery. In 1992, he had gained clearance from the Foreign Investment Promotion Board attached to the prime minister's office for Itochu to take 26 per cent of the 9 million tonne a year refinery. In August 1993, he announced that Reliance Petroleum would make its inaugural capital raising, through an even more complex issue called a triple option partially convertible debenture. Subscribers were offered debentures with a face value of Rs 60. Of this, Rs 20 was to be converted into equity shares at par, one on allotment and one after 18 months. The Rs 40 balance, nonconvertible, would he paid back doubled in three annual instalments from the sixth year (equivalent to an effective 14.35 per cent annual interest). Two attached warrants for shares could he sold on the market, or exercised for Rs 20 each. Or investors could get their money back on the Rs 40 nonconvertible portion after 46 to 48 months and receive two shares from the warrants at Rs 20 each.

If Dhirubbai had previously made the nonconvertible convertible, the new issue was surpassing. Investors would get equity shares immediately in a business which did not yet exist and which was years away from earnings, and would have non-convertible debentures which would not earn any returns until the sixth year. It was extremely cheap money until then, almost free.

But when put to the market in November 1993, it raised the targeted Rs 21.72 billion from institutional investors and the public, and was oversubscribed three times. Reliance itself put in Rs 5.773 billion, taking the total proceeds to Rs 27.493 billion or close to US$1 billion at that time. Itochu was no longer in the picture and not mentioned in the prospectus. The absence was not really explained. Together with another partly convertible debenture issue to Indian institutions along with overseas supplier's credits, lease finance and some overseas borrowings, the issue was to fund the refinery's cost of Rs 51.42 billion by its planned completion in three years time, that is, late 1996. Dhirubhai now had 2.6 million shareholders in Reliance Petroleum as members of his 'family'.

Almost immediately, the project met delays on the ground, as disputes were reported with landowners on the site at Moti Khadvi, about 25 kilometres outside Jamnagar on the west side of the Saurashtra peninsula. Court actions were to continue until May 1996 when the company established its ho 'Id over some 2240 acres. But by the time Dhirubhai arrived on 23 January 1995 for the bhumi puja or ritual groundbreaking prayers involving the cracking of a coconut and the chanting of Yedic scriptures by a Hindu pundit, the size of the refinery had expanded in his plans to 15 million tonnes a year, with another petrochemicals complex alongside making 1.4 million tonnes a year of paraxylene and other downstream products and including a third FTA plant of 350 000 tonnes.

The cost of the refinery was now put at Rs 86.94 billion, and the petrochemicals works were another Rs 45 billion. However, the completion date had slipped two years, to late 1998 or 1999, which would be just before the returns on the nonconvertible part of the debentures were due. Would Reliance

Petroleum then disappear back into the parent company, many investors won- dered, in another many-for-one share swap? Would there be more delays and more expansions?

The new investors, especially the foreign portfolio ftmds, had by then learnt that Dhirubhai was capable of constant surprises. Reliance was moving in so many directions simultaneously that it was hard to put the whole sum together. Probably only Dhirubhai, his two sons and a few others had the whole equation in their heads

. The cachet with the new foreign investment funds had been turned into cheap finance raised in London, Luxembourg and New York. Despite the mayhem in the Bombay capital markets in May 1992, Reliance had then been the first Indian company to float Global Depository Receipts (GDRs), a convertible bond priced in US dollars but initially priced in a linkage with the Reliance share price in India. It had been a Herculean effort of share price support against the background of the securities scam, and once the issue closed on 1 8 May Reliance had to offload the shares it had bought on market onto the books of friendly Indian institutions, mutual funds and merchant banks which had been convinced that helping India's first GDR issue was a patriotic duty. Within two months the GDRs were trading at a 25 per cent discount to the issue price.

When India's financial image recovered the next year, Reliance was back with a US$140 million Euro-convertible bond issue in November 1993 managed by Morgan Stanley, whose investment guru Barton Biggs rated Reliance scrip one of the best buys in Asia. Many other investment advisers then saw Reliance, the most liquid security in the sharemarket, as a 'surrogate' for the entire Indian market or the quintessential 'India story'.

Anil,Ambani, the more outgoing of the two sons, became the public face of Reliance in the numerous 'roadshows' held in world investment centres from then on. In February 1994, the company made the biggest GDR issue yet, of US$300 million, after some delays in permission from the Ministry of Finance which had noted that the proceeds of the previous Euro-issues had not yet been completely used for the designated purpose and that Reliance seemed to have money to play the sharemarket.

The foreign enthusiasm was dashed considerably at the end of 1994, however, when Reliance carried out two manoeuvres which many investors felt had broken assurances. On 22 October, Reliance announced it was placing 24.5 million shares with Indian financial institutions to raise a total Rs 9.43 billion to fund its oilfield developments. It emerged that the Unit Trust of India had put in Rs 7.73 billion, the rest coming from the Life Insurance Corp and the General Insurance Corp. A five-year 'lock-in' applied, meaning that the institutions could not sell the stock for that time.

Just over two weeks later, Reliance announced it was merging the 'twins' Reliance Polypropylene and Reliance Polyethylene into itself, in a share swap set by two accountancy firms that seemed quite generous to the shareholders of the two subsidiaries, which were still a year away from production.

The foreign investment fund managers were livid. Early in October, Reliance had staged a 'roadshow' in Hong Kong to present its first-half results to market analysts. The Reliance financial manager Alok Agarwal had been repeatedly asked whether the company had any plans to raise equity capital in the near future. Agarwal and other company executives had left everyone with the impression that there were no plans to do so. Now, within a month, Reliance had made two moves which involved the issue of about 99 million new Reliance shares, expanding the share base by over 30 per cent.

The foreign funds had by then lifted their combined shareholdings to 13 per cent of previous total equity, on the expectation of very strong growth in earnings per share, a widely used yardstick of the profitability of a share. Their analysis was now way out of touch. Profits would be spread over a much greater number of shares, so earnings-per-share would be much lower. To complaints that Reliance had given no hint of such a 'dilution' of equity, the company rather lamely said it had not specifically ruled it out.

Some fund managers in Bombay threatened a revolt, telling Reliance they would vote their shares against the merger at the extraordinary general meeting called to approve it on 6 December 1994. They produced evidence of heavy buying in shares of the twins before the announcement. Both Reliance Polypropylene and Reliance Polyethylene were trading at around Rs 40 early in June 1994, but climbed steadily to peak at Rs 105 and Rs 92.5 respectively on 8 November when the announcement was made.

For those in the know about the swap-ratio, it would have been either a cheap entry into Reliance itself-since its shares were trading at more than Rs 400 by October-November-or a chance for some insider-trading profits.

One investor that was not complaining, oddly, was the Unit Trust of India. It was unclear whether its top officials had been told of the twins' impending merger, even though it was announced only two weeks after the private placement and had an immediate unfavourable impact on the Reliance share price. If the merger plan had not been foreshadowed, the Unit Trust might have been able to argue that a material event had not been disclosed and seek redress for its unitholders. If it had been told, the performance of its managers was open to question.

No one was arguing with the logic of consolidating the twins into the parent company at some stage. It added sales, assets and profits while eliminating the sales tax that would apply to transactions between separate companies. But this should have happened closer to the time the twins' plants came on stream. As the London investment group Crosby Securities noted in a company report in 1996, 'The surprise equity dilutions ... had cast a shadow of doubt on the treatment of minority sharehold- ers'. The effect was a fall in the Reliance share price, and an even sharper tumble in the price of its GDRs listed in Luxembourg.

The investment bankers did not ostracise Reliance for very long. The angry fund managers in Bombay were called by their head offices in Hong Kong and London and told not to make a fuss at the 6 December shareholders meeting.

There were still some fat fees to be earned from managing new capital issues and borrowings, though Reliance had burnt bridges with many equity investors in Europe. But there was still the debt market, and the whole new world of the American debt and equity markets to tap into.

In 1995, Reliance made some more new capital-raising firsts for Indian companies. In July it raised US$150 million in a seven-year syndicated 'bullet' loan in Europe, meaning that it was repayable in one lump at the end of the term. In October of that year, it placed US$150 million worth of 10-year bonds at 1.9 percentage points over the US Treasury 10-year rate with American institutions, having gained a favourable credit rating from the National Association of Insurance Companies. By mid- 1996, it had gained an investment grade rating by one of the two big New York rating agencies, Moody's, though not from the other, Standard & Poor's. It put through US$200 million in bonds with the help of Merrill Lynch, half for 20 years and half for 30 years. Reliance Petroleum meanwhile raised US$260 million for the Jamnagar refinery through two bond and GDR issues in the first half of 1996.

The retreat of the Indian Government from its monopolising of many infrastructure sectors had opened up numerous opportunities. Dhirubhai had often used the old-fashioned adatye 'stick to your knitting' to keep his executives looking at associated activity (his first industrial activity had actually been the knitting machines at Naroda). The sons were keen to try something new. If tenders were won, that's where Reliance would go.

Many projects were proposed by the mid-1990s, including a software technology park near Hyderabad, a small transport aircraft with Hindustan Aeronautics Ltd in Bangalore, diamond mining with South Africa's De Beers Corp in Madhya Pradesh, a toilway from Bombay to Pune. The firmest steps, however, were in power and telecommunications. Reliance gained approvals for three mid-size power plants in Patalganga, Jamnagar and Delhi. It also won the licence to operate a basic telephone service in Gujarat, in partnership with the American utility Nynex, called Reliance Telecom, for a licence fee of Rs 33.96 billion payable over 15 years. The only competitor would be the cashstrapped and trade union-bound government telephone service and two private cellular services. In addition, Reliance Telecom won licences to run cellular services in the states of Madhya Pradesh, Orissa, Bihar, West Bengal, Assam and Himachal Pradesh and in the northeastern hill states for modest total licence fees of Rs 3.37 billion over ten years. The telephone licences covered nearly one-third of India's population, but (aside from Gujarat) were in some of its poorest regions.

In addition, Dhirubhai also appeared to be gearing up for more corporate power-play. Over the course of 1995-96 (to March), the Reliance sharcholding in Larsen & Toubro jumped from 5.96 per cent to 8.73 per cent, while its holding in the cash-cow Bombay & Suburban Electric Supply Co moved up slightly

to above 6 per cent. The neglected subsidiary Reliance Capital & Finance Trust was also charged up with sizable capital through rights issues and private placements and renamed simply Reliance Capital, under the 'third son' Anand Jain. In 1995-96 it declared a profit of Rs 1.109 billion, and had a net worth of about Rs 10 billion.

Around the end of 1993, most of Dhirubhai's old Aden colleagues remaining in service were eased out into retirement. Mukesh and Anil felt these men no longer had the drive necessary to push Reliance's huge expansion forward, but some were a little bitter that they could not stay on. The Gujarati flavour of the company was further diluted by the recruitment of more man agers and technical staff from other parts of India. The family also formalised a split of assets that saw Dhirubhai's two brothers Ramnikbhai and Nathubhai give up their remaining executive roles in Reliance and concentrate on their own personal businesses outside. Though both remained on the board, it was made clear that their children were not in the line of succession to run the company though the two sons of Dhirubhai's nephew and close associate, Rasikbhai Meswani, who had died in 1985, were taken on as executive directors once they finished their education.

The reorganisation was an effort to prevent two of the failings that hit many Indian companies once they pass from the control of the founding entrepreneur. The companies are often run as highly personalised fiefdoms by the original patriarch, who holds most of the decision-making powers and delegates little to managers, mixes personal and corporate finances, and requires a high level of sycophancy ftom employees. When the empire passes on to two or more pampered sons, frictions are almost inevitable, and usually the only solution is a split of assets and businesses. In some cases this is relatively amicable, as with the children and grandchildren of G. D. Birla. In others it is bitter, as with the Modi brothers and cousins, and requires intervention by the big banks and financial institutions that may have investments or loans with the group. The result is a plethora of groups holding the same family name, distinguished by the initials of the par- ticular owner. The other failing is a consequence of continuing this personalised leadership---a lack of professionalism throughout the organisation and weak systems of financial and operational control.

In a diverse conglomerate like the original Birla or Modi groups, a split can be beneficial. In a highly integrated company like Reliance it could be disastrous. To all appearances, Dhirubhai's succession plan looked free of immediate trouble. The two sons had never shown any sign of dispute or dissatisfaction with their positions at Reliance. The older son Mukesh's elevation to vice-chairman, after Ramnikbhai Ambani, Dhirubhai's older brother, stepped down as joint managing direc- tor, indicated that he would take charge eventually. As Dhirubhai slowed down in his sixties, and attended the office for a shorter working day, Mukesh assumed more and more of the major decisions, though Dhirubhai retained the ultimate say. Reserved, and deceptively mild in appearance, Mukesh was regarded as highly determined and even ruthless by acquaintances, as well as being a talented engineer and manager. Anil was more the public face of Reliance, talking to the press and investors.

Either individually or put together, however, the two sons seemed unlikely to display all the attributes of Dhirubhai, especiafly his genius for forging personal relationships at A levels and, perhaps, his boldness of vision. That this was a question mark over Reliance was recognised by an attempt to show the wide range of professional skills in the company's expanding workforce. But the Ambanis seemed caught in a dilemma. Formalising the company's process of formulating new policies and strategies or taking running decisions could rob it of its ability to move fast and grab opportunities. Reliance could end up like the slow-moving committee-driven corporate bureaucracies it often derided.4

As Dhirubhai moved closer to realising his dream of an integrated petroleum empire and of handing on a modern corporation, however, events took a turn that made Bombay wonder whether the Ambanis and Reliance had changed at all in essence from the buccaneering days of the early 1980s. Suppressed scandals came to the surface, including a dispute that seemed to question Dhirubhai's most often professed loyalty. to the millions of shareholders in his 'Reliance family' who had put their savings into the security of Reliance shares.

HOUSEKEEPING SECRETS

On 29 November 1995, the Bombay Stock Exchange faced perhaps the biggest challenge to its existence in its scandal and crisis-ridden 120 years. A letter arrived that day from Reliance Industries, signed by a junior executive on behalf of its board. Recalling that Reliance had been first listed on the Exchange in November 1977, the letter said: 'We regret to state that we are constrained to terminate the said listing.'

The six-page letter went on to blast the Exchange for singling out Reliance for 'biased and prejudiced action' and accused some of its board members of being part of a cartel of 'bears' that had been hammering down the company's share price, to the detriment of its millions of investors. It was now moving to the new National Stock Exchange, a computerised rival set up by the government as an alternative to the score of unruly, casino-like city exchanges.

Reliance at that time had a weighting of about 10 per cent in the Bombay Exchange's most commonly used index of price movements, the 30-share Sensitive Index or Sensex. The most liquid of the 6500 listed stocks, it typically accounted for almost 30 per cent of the daily trading volumes. Dealing in Reliance shares was bread-and-butter for Bombay's brokers. The company and its founder Dhirubhai had been credited for much of the explosion in share ownership among the Indian public since the 1970s. Now Dhirubhai was taking his bat and ball, and moving to another pitch.

As if to rub it in, a massive upsurge in trading volume simultaneously hit the National Stock Exchange, where Reliance had just been listed. If Reliance were allowed to move, the Bombay Exchange suddenly faced obsolescence.

But whatever the jitters among its broker members, Dhirubhai was wrong if he thought the Exchange's executive board would be quickly cowed. Its president, Kamal I.' abra, immediately likened Reliance to a 'fugitive from justice' fleeing to another jurisdiction.

Dhirubhai had been in and out of many scrapes before. His alleged misdeeds and manipulations had filled the front pages of newspapers and taken up many hours of parliamentary debate, just as his industrial and financial acumen had preoccupied the glossy business magazines. The dispute that had led to his attempt to delist his stock was undoubtedly the most hurtful and damaging of all. It struck at the very heart of his repeated claim that, whatever else he might have done, he had always looked after his shareholders.

At issue was whether Reliance had knowingly issued more than one copy of each share and deliberately mixed up records of share ownership. If such suspicions were true, it meant that Reliance had been giving worthless paper to investors, or giving them shares owned by someone else. It could be fraud. It would threaten the most basic trust underpinning India's capital markets.

The dispute blew up in the latter half of 1996, but the constituent chemicals had been mixed nearly a decade earlier and the fuse smouldering for three years. Dhirubhai and Reliance had been involved with several of the major players in the money market manipulations that had collapsed in the 1992 Bombay securities trading scandal.

According to brokers and bankers involved, the practice began in 1984-85 when the portfolios of several public-sector banks were churned over on behalf of Congress Party fund-raisers for Raiiv Gandhi's election, raising Rs 4 billion. 'The brokers who did the transaction got the confidence and started doing it on a big scale,' one banker recalled.' The Reserve Bank was aware that bankers' receipts, or BRs, were being issued without the backing of actual securities, but did little about it. For ten years until 1992, the RBI's deputy governor supervising banking operations was Amitava Ghosh, later criticised in a Joint Parliamentary Committee report on the seam as having taken a 'casual' approach to his role. Dhirubhai is widely credited with having swung Ghosh's unusual second five-year term as deputy governor.

The entry of public-sector enterprises (PSES) in the late 1980s stepped up the unofficial market's tempo. Approvals for borrowings given by the Ministry of Finance to the enterprises were valid for a year, so the enterprises would make their bond issues before the approvals lapsed, even if the investment programmes for which the funds were intended were delayed. Few of the bonds would be marketed to the

public: nearly A were sold in bulk to the banks who needed such government-backed securities for their reserves. The banks would be stuck with low-interest paper and the enterprises with surplus cash. Both parties had a need to beat the interest rate on the bonds.

Enter the 'portfolio management scheme', whereby the enterprises (and private-sector companies) would lend their spare cash to the banks which would make high-yield investments on their behalf. The transfer was not a deposit (in which case the banks would have had to put 54.5 per cent into their reserves), and no return could be guaranteed. The risk would be on the enterprise, not the bank.

That was the theory, anyway. In practice, the banks competed for PSE funds by giving an 'Indicative' return. The PSEs wrote the placement down as a 'deposit' in their own books. If the banks made more than the indicated return, they kept it. The risk stayed with the owner of the money. In practice, the banks were not equipped to make high-return speculative investments, usually in the sharemarkets, and developed informal relationships with brokers. But because the banks were not allowed to lend money to brokers, a subterfuge was needed. The cover was a fake securities transaction, whereby the broker obtained an unbacked BR from a compliant bank to give in return for the funds. The transaction would usually take the form of a 'ready-forward' or 'repurchase option (repo)' deal, whereby there would be an agreement to sell back the security after a certain time. The repo deals became a substitute for interest-bearing loans, to avoid interest rate controls, reserve requirements and withholding tax on interest. It was a market in which inside information on interest rate changes, dividends paid by the Unit Trust of India and so on could be turned to money by fleecing the less informed.

Dhirubhai, according to the same sources, became interested in the money market in the late 1980s and played it to recover some of the funds lost in the desperate 1986-87 defence of the Reliance share price. He had built Reliance's fundraising operations to such a level that one analyst likened them to a virtual banking business parallel to and almost as important as the polyester business.2 It is hard to believe that the opportunities in the repo market would be unknown to him or unused. But transactions would have been put through brokers such as Hiten Daial, a former V D. Desai & Co employee who had started on his own in 1989. And even then, the brokers were themselves officially not there in the dealings between banks.

The best known figures in the 1992 repo boom, Harshad Mchta and his brothers, had been caught in the crushing of bear brokers engineered by the 'third son' Anand Jain at the end of 1986. They had escaped lightly after pulling a family connection-one of the brothers was married to a daughter of the vice-chairman of the Industrial Credit & Investment Corp of India, a major lender to Reliance. The father-in-law had interceded with Reliance auditor D. N. Chaturvedi. Chastened, the Mchtas stayed clear of Reliance and turned to the money market. In 1990, they correctly judged it time to return to equities and by 1991 had built up a huge reputation in the sharemarket, where even rumours of their interest were enough to send a stock rocketing upwards.

Around November 1991, the Mchtas put in a call to Anil Ainbani to break the ice. Their first meeting discussed the 1986 affair; it was agreed to let bygones be bygones. They started meeting frequently. The Ambanis were concerned about their share price, which was hovering between Rs 130 and Rs 170 despite the efforts of legendary market movers like stockbroker Nimesh Shah. They wanted to be first in India with a Euro-issue and to sell it at a high price.

The Mehtas found that Reliance was still seen in the market as a seller of its own shares. Every time the price rose Rs 20 or so, its brokers would start booking profits. The Mehtas agreed to start pushing up the share price, on condition that Reliance itself stopped selling. The intervention worked. From Rs 127 at the start of 1992, the Reliance share price rose to Rs 241 at the end of February and Rs 455 at the end of March. That was against a background of wild builishness in the market-the Sensex rose from 1915 at the end of December to a peak of 4467 on 22 April 1992-but the ramping of Reliance was a substantial cause in itself.

Harshad Mchta became a celebrity. The press speculated about his source of funds, gave respectful attention to his novel theories about valuing stocks, and wrote without envy about his ostentatious wealth. He and his brothers lived in a huge apartment on the Arabian Sea at Worli, with some 27 foreign and locally made cars in the garage. Harshad was declared India's biggest income taxpayer. He was also dubbed 'the Big Bull' a title once given to Manohar Pherwani in his days heading the Unit Trust of

India. Mehta's fellow Gujaratis came to regard him as a second Dhirubhai. He had come from a similar unprivileged background (his father a shopkeeper, and his commerce degree a bare pass from a low-status college). A thrusting young bull was shouldering aside the old bull.

It caused some pique at Reliance that a mere broker was achieving such glory, and even presuming to correct Dhirubhai on his investment strategy. The Mehtas were buying up debentures that Reliance was selling, particularly those of the struggling Reliance Petrochemicals and Larsen & Touhro. The Reliance Petrochemicals debentures were a good buy, ultimately providing a very cheap entry to shares in Reliance itself after conversion and then the merger. In December 1991, the Mehtas had also virtually taken over part of the triple debenture issue by Reliance, by placing a massive order and asking the company to stay out of the field itself.

A small incident may have helped convince the Ambanis that Harshad Mehta was getting too big for his boots. Harshad and Anil Ambani had ridden down together in the elevator at Maker Chambers IV, the building housing the Reliance head office in Bombay's Nariman Point, and stood together on the steps while their cars were hailed. Harshad's arrived first, a gleaming new Toyota Lexus, at that time the only one in India. Anil looked at it in admiration and made some complimentary remark. Harshad promptly handed over the keys and told Anil: 'Take it, it's yours.' Anil refused, but the gesture may have left him feeling patronised.

A net was closing in on the Mehtas in any case. The central bank's governor, S. Venkitaramanan, had been trying again to goad his deputy governor, Ghosh, into cracking down on the BR trading between banks. He was also intrigued by Harshad Mehta's apparently inexhaustible source of funds. An income tax raid on Mehta in February had failed to crack the secret because the Mehtas kept their data on encoded computer disks. Venkitaramanan had not quite put his suspicions together and made the mental link, but he was getting closer. In March, he asked the State Bank of India to look at Harshad Mchta's account. The bank reported huge inward and outward flows of money. Over April, the State Bank began pressing Mehta to reconcile the huge shortage, Rs 6.2 billion, in his business with it. He sought to roll over the obligation, and on 24 April brought in cheques to settle his dues.

But by then the scam was out. On 23 April, Ue Times of India had reported a Rs 5 billion shortfall in the State Bank's treasury on account of transactions with a broker called 'the Big Bull'. The music stopped, and ten leading banks were left with a Rs 40 billion gap in their books.

It soon emerged that Harshad Mehta had paid his dues with funds provided by a fully-owned subsidiary of the central bank itself, the National Housing Bank. Venkitaramanan, after his own appointment by the Chandrashekhar government, had brought back the former Unit Trust of India chairman Pherwani as the Housing Bank's chairman and managing director. Still wildly ambitious, Pherwani had thrown the bank into the thick of the repo-based securities trades. When Harshad Mehta was put in a squeeze by the State Bank, the Housing Bank had obliged him with cheques made out to ANZ Grindlays Bank. Mehta had banked these into his own account with ANZ Grindlays, and then paid the State Bank of India. (The Australian-British bank was later pulled up for breach of banking rules and forced to return Rs 5.06 billion to the Housing Bank pending arbitration on its defence that crediting cheques to brokers' accounts had been established practice. After four years of hearings and deliberation, the arbitrators returned the money to ANZ Grindlays.)

According to sources close to the Mehtas, Dhirubhai had been the first person Harshad Mehta had contacted when put on the spot by the State Bank. Dhirubhai had told him: 'Don't call anybody, I'll look after the matter.' According to an account by the financial journalist R. C. Murthy, Pherwani had agreed to bail out Mehta at a meeting with Harshad Mehta and 'an industrial tycoon'.3 One acquaintance confirms that Pherwani said Dhirubhai had been the person who interceded for Mchta. 'I was forced to do,' Pherwani told this person. However the Mehta linked sources deny that a joint meeting took place between Pherwani, Dhirubhai and Mehta.

The Mehtas later came to assert privately that Reliance had been the cause of their downfall, bringing them to the attention of the tax authorities, Venkitaramanan and then the press. 'The whole securities scam was an exercise to eliminate us, but like putting ink on a blotting paper it could not be contained,' a source close to the Mehta brothers claims.

It is hard to believe this, given that Reliance was still more than two weeks away from its GDR issue when the scam blew open on 23 April 1992, and that Harshad Mehta had been a key operator jacking up the Reliance share price. Nor does it reconcile with the pressure put on Pherwani to pull Harshad out of the soup. Pherwani had been the fall guy for Dhirubhai once before, losing his Unit Trust of India job over the Larsen & Toubro affair. Now he faced complete disgrace. Harshad was unable to pull off the big securities deal he promised Pherwani, whereby a government corporation would have parked the funds through him with the Housing Bank. Pherwani resigned on 9 May. In the early hours of 21 May, family members found him dead at his Bombay home. The journalist Murthy got a phone call and rushed to the house about 8 am. Pherwani's body looked 'blue', he remembers. It was cremated at 11.30 am the same day, with the face covered instead of left open in the normal Hindu way. The death was ascribed vaguely to a 'heart attack'. Murthy and many others believe Pherwani committed suicide.

The opening up of the securities scam led to investigations by the Reserve Bank of India, the Central Bureau of Investigation and finally the Joint Parliamentary Committee. Senior bankers were sacked, several brokers and bankers arrested (including Harshad Mehta) and a special court set up to try those charged. Three ministers ultimately lost their posts for improper financial dealings. The blame was widely spread among financial system regulators, including the Reserve Bank governor, Venkitaramanan.

The links between Reliance and Harshad Mehta or other brokers were never made explicit throughout the entire investigation, though the favours shown to Reliance by several banks were criticised in the parliamentary committee's report. It noted how funds put by the Oil & Natural Gas Corp in portfolio management schemes with two banks had been channelled through brokers into Reliance shares; how Reliance had recruited the ONGC chairman immediately on his retirement; and how some banks had given large amounts of credit to Reliance and its associated 'front companies' through bill discounting. In a general note on the overall scam, it said: 'There is some evidence of collusion of big industrial houses playing an important role.'

The Congress majority in the committee, who included Dhirubhai's old friend Murli Deora, prevented the probe going any further than that. A note by the opposition minority pointed out that there were still gaps in the investigation, and that the CBI had made many lapses (its chief investigator, K. Madhavan, had resigned in protest during the inquiries). A second note by three Left MPs pointed out that the Reliance name had surfaced more often that those of other industrial houses, but this must still be only 'the tip of the iceberg'. One MP who was in the committee recalls: 'There was always a lurking suspicion that big interests were behind the scam, but there was no trace. It was one reason why we put all the evidence in the parliamentary library instead of having it destroyed, which is the usual practice. There was some resistance to this.'4

Many of the committee members also had their doubts about the central bank governor, Venkitaramanan. In the 1980s, as head of the Ministry of Finance, he had been openly accused in the press of belonging to a pro-Reliance clique of officials, and was distrusted because of this by his then minister, V P Singh. His appointment as Reserve Bank governor was generally seen in Bombay as a favour called by Dhirubhai during Chandrashekhar's brief prime ministership. It emerged also that Venkitaramanan's son was linked in a business venture in Madras with Dhirubhai's son-in-law, Shyam Kothari.

Venkitaramanan had been India's man of the hour in March-June 1991, handling the external payments crisis when New Delhi was paralysed by political crisis. A year later, the opposition MPs wondered, was he helping to cover up aspects of a scandal that pressured his own friend and head of a central bank subsidiary, Pherwani, to the point of suicide?

The Reliance GDR issue was successfully put to the market over 11 - 18 May, despite the financial mayhem breaking out back in Bombay. Fortunately for Reliance, the CBI did not move in to arrest Harshad Mehta and his brother Ashwin until well after the issue closed, on 4 June.

Dhirubhai's connections with the scam had been buried and, as he might have said to his old friends in the yarn market, a first-class fountain had been built on top. Or so it seemed.

Since his stroke in February 1986, Dhirubhai had been careful to keep up his exercise and worked hard to bring back full dexterity to his right side. He employed a well-qualified young physiotherapist with a

Bombay suburban practice, RaM Vasa, who soon became a regular visitor to the Ambani household at Usha Kiran and then Sea Winds. As well as paying her her normal fees, Dhirubhai rewarded Vasa with allocations of Reliance shares. In January 1994, Ram and her husband Gajendra decided to cash some of their paper wealth, and sold 26 650 Reliance shares through a broker, R. D. Choksey. In turn, Choksey delivered the share certificates and the signed transfer forms to broker V K. Jain who had bought and paid for them on behalf of a company named Opera Investments.

In April, the Vasas wrote to the Reliance' share registry, Rellance'Consultancy Services (RCS), notifying the loss of certificates for 33 809 shares and asking for duplicate certificates. Among the distinctive numbers they listed were the shares sold in January In June, the broker V K. Jain brought the shares along to RCS to register the transfer of ownership to his client. The registry rejected the transfer form because, it said, the signatures did not tally with those on its record. In August, the same registry issued new share certificates to the Vasas, who later sold them to Merrill Lynch. Jain had meanwhile complained of a bad delivery to the Bombay Stock Exchange, which had begun an inquiry.

Over a year later, in September 1995, the Exchange began asking Reliance about the Vasa case. In early October it began recovery of the claim against the Vasas' broker, R. D. Choksey. In their meetings with the Exchange's board, the Reliance representatives headed by Anand Jain were surprised at the hostility of the questions. '

We are Reliance,' Anand Jain told the Exchange's president, Kamal Kabra, according to one board member's account of the meeting. 'Don't ask this kind of question to us.'

'Behave yourself,' Kabra is claimed to have said. 'You are Reliance in Maker Chambers IV but in this chamber you are just one of 6800 listed companies.'

Anand Jain offered to settle the outstanding claim immediately, putting down a pay order for Rs 10.8 million, on condition that the investigation and penalty action be halted. The Exchange's board met and considered the action. On the face of it the persons at fault were Rajul Vasa and her husband. So why should Reliance step in?

The board decided that money was not enough. On 16 October, the Exchange sent a show-cause notice to Reliance. Neither Reliance nor its registry, RCS, had raised any queries with the Vasas, or told Opera Investments about the issue of duplicates for the shares it had presented. It had not filed any complaint with the police, or told the Exchange of any steps to enforce an indemnity given by the Vasas when they applied for the duplicates, or, 'despite the obvious fraud', started any legal proceedings. Reliance was thus guilty of gross negligence, if not an accomplice.

Almost at the same time, another timebomb blew up. One of the financial houses deeply involved in the 1992 securities trading scandal had been a fast-growing and politically well-connected firm called Fairgrowth Financial Services Ltd. It was caught up in a mass of claims before the special court set up to handle the scam cases, presided over by Justice S. N. Variava. One claim that Fairgrowth was pursuing concerned a parcel of 1.5 million Reliance shares it had bought through a broker named Pallav Sheth in February 1992, and then sent for transfer to RCS. In March that year, Sheth had arrived back with Ajit Ambani, brother of Reliance's company secretary Vinod Ambani (no relation to Dhirubhai) and urged Fairgrowth to withdraw the transfer. They undertook to sell the shares in the market. It was the last Fairgrowth saw of the shares or its money. In 1993, Fairgrowth obtained a court order for Sheth to repay it Rs 515 million in monthly instalments. Sheth defaulted after one payment.

In October 1995, Fairgrowth began trying to trace the funds on a second front. It filed a petition in the special scam court asking Justice Variava to compel Reliance and RCS to tell it where the shares went. News of the two cases, Fairgrowth and Rajul Vasa, became the talk of the markets. Rumours that duplicate shares were in circulation caused a sharp fall in the price of Reliance shares in Bombay and of its GDRs in London.

Reliance read a plot into the cast of characters ranged against it. Two of the most vocal Bombay Stock Exchange directors against it were M. G. Damani and Rajendra Bhantia. Damani was an old Exchange bear. Bhantia was a friend of Nusli Wadia, and had been connected to FairWowth previously. The Fairgrowth lawyer, Mahesh jethmalani, son and legal partner of Ram Jethmalani, had defended Wadia

in the Fairfax affair and appeared against Reliance in the court battles of the 1980s. The old fighting instincts were roused.

On 30 October, a letter arrived from Reliance at the desk of the Securities and Exchange Board of India's chairman, D. R. Mchta:

We regret to bring to your kind notice that over the past few weeks a systematic and well orchestrated campaign has been conducted by a cartel of bear operators against us, Reliance Industries Ltd, with a view to bleniishing our fair reputation as India's No 1 private sector company, bringing down the market price of our share and thus our market capitalisation, and causing in the process huge losses and untold anxiety to our 2.4 million strong family of small and institutional investors.

The letter went on to say that the Vasa case had been blown up out of A proportion, that the Bombay Exchange's board deliberations had been leaked to the press in a systematic, distorted way, and that the Fairgrowth issue had been falsely linked with the duplicates case. It was necessary to track down gan evil coterie' of brokers and operators, and to provide reassurance to millions of small investors in the grip of a 'fear psychosis'.

The Bombay Exchange continued to hold firm. After another combative meeting with Reliance representatives on 14 November, its board met immediately afterwards and decided to penalise the company with a three-day suspension of trading in its shares, starting on 16 November. The news was in the next morning's paper before the formal notice arrived at Reliance late in the afternoon, too late to take out a High Court restraining order before the suspension came into effect. Dhirubhai had to endure the humiliation.

On the day the suspension started, the special seam court dealt a second blow. Justice Variava froze the transfer of the shares sought by Fairgrowth and demanded that Reliance tell him where they now were 'even if you [Reliance] have to place 30 people on the job for 24 hours'. The Bombay Exchange declared the 1.5 million shares bad delivery. On 27 November, this puzzle became a second scandal. The Unit Trust of India announced that it had bought a lot of 2.4 million Reliance shares in December 1991 and sent them for transfer to RCS. They had discovered in early 1995, after queries by tax inspectors, that the share certificates sent back by RCS in their name covered shares with different distinctive numbers. Out of them, they now found that 870 000 came from the batch of 1.5 million sold to Fairgrowth and declared frozen by the court.

Reliance quickly explained that certain investors' had delivered the original lot of shares to the Unit Trust of India, and then had taken them back and replaced them with different shares. As the sellers were the same, and the shares equal in all respects, RCS had processed the transfer and given UTI the second batch of shares. It was a highly unsatisfactory explanation. UTI had not been consulted, and was left with 870 000 shares- perhaps more-on which Fairgrowth was asserting a lien. Had RCS been as casual about ownership in other cases? Who were these operators who could withdraw shares from the registry after selling them?

The market was reeling under the shocks to its confidence. On the same day, Reliance had applied to the National Stock Exchange (NSE) to list its shares, along with those of three quoted subsidiaries. The NSE was a brand-new, fully computerised exchange set up by the Ministry of Finance in the hope it would be both a warning and an example to the old city exchanges, whose broker-members had fought hard against reforms aimed at giving investors more protection. The NSE was only too pleased that the biggest chip of A in the old exchanges wanted to be put on its screens. On 29 November, it put the Reliance group up for trading. That afternoon, Reliance delivered its bombshell letter seeking delisting from the Bombay Exchange.

Once the Bombay Exchange made it clear it would refuse permission to delist, on the grounds that Reliance was hardly a defunct or bankrupted company with no remaining activity in its shares, the ball was in the court of the government, which could overrule the Exchange. After initially welcoming Reliance's interest in its new baby, the NSE, the Ministry of Finance had woken up to the implications of Exchange president Kamal Kabra's 'fugitive from justice' remark. On 1 December, the Securities and Exchange Board's chairman D. R. Mehta was called in by the Finance Secretary, Montek Singh Ahluwalia, and asked to seek a compromise.

Over the following days, delegations of venerable stockmarket leaders including retired Bombay Exchange presidents called on the warring parties, pouring wise words on the aggravated feelings of the Ambanis on one hand and the Exchange's young bloods on the other. A drumbeat of press commentary accompanied the standoff.

The company is not owned by the Ambanis alone,' declared the Ecnomic Times. 'If the ego of the Ambanis really got so battered, perhaps the solution is to ask Ms Vasa to give it some therapy.'5

Dhirubhai's own newspaper, the Observer of Business and Politics, rallied the defence: 'While much of Indian business has grown on family wealth, Reliance climbed to the top of the pyramid because of its unique chemistry with the ordinary investor but became a soft target for a gaggle of bear players ... Reliance therefore is entirely justified in seeking delisting from a den of bears.'6 A huge advertising campaign, reminiscent of the 1986 series, declared: 'The world can wait. Our shareholders can't.

Behind the self-righteous claims, both sides were looking for a way for Reliance to back off. It was found in a letter from the Exchange on 4 December, rejecting the request to delist and asking Reliance to withdraw it. The company did so, claiming it had made its point. In a letter on 5 December, it said the decision to seek deleting from the Exchange had been 'painful' but the company had been 'overwhelmed by the spontaneous outpouring of support from thousands of investors'. The substantive issues raised by Reliance on capital market reform and the charges it had raised had been 'well recognised'. The letter added:

Keeping alive the hope that stock exchanges and other regulatory authorities in the country will accept our corninents in a constructive perspective, and will sincerely endeavour to implement over a period of time the broader issues in investor protection brought to the fore by us, our board of directors has met and decided to accede to your request that this rnatter not be pursued, even though we are advised there exist in law sufficient grounds to do so.

It was a climbdown. Reliance was soon back on the defensive. The Unit Trust angle to the Fairgrowth affair had opened up a whole new avenue of investigation for both regulators and the press. The Unit Trust said it had learnt that the sellers of the 2.4 million shares had been Reliance group companies, and press inquiries found that some of the switched shares were still with small investment companies run by the Reliance company secretary, Vinod Ambani, with Amitabh Jhunjhunwala, the chief executive of Reliance Capital, also involved.

The switched shares had now been replaced by a third lot sent over to the Unit Trust by the Reliance registry, RCS. Why? Was it an attempt to get the scam-tainted shares out of circulation? Could they be duplicates also? Could the 1.5 million shares sold to Fairgrowth be the same lot of 1.5 inillion that, according to the reports on the 1992 scam, were bought and sold in a Rs 600 million repo deal involving Citibank, ANZ Grindlays and the brokers Hiten Daial and Harshad Mchta in mid-April 1992?

Then there was the mysterious Raju Vasa case. The original buyer of her shares, Opera Investments, turned out to be another Reliance front company. Its broker, V K. Jain, was a brother of Reliance Capital's Anand Jain and had been active in the Larsen & Toubro proxy battle. What was behind this strange affair in which all parties to the transactions seemed to be linked?

The controversy was taken up in parliament, where all the politicians were readying for the national elections that had to be held by rnid-1996. As was the case in the last days of the Rajiv Gandhi government, corruption charges were piling up around Naraslinha Rao's administration. Already several ministers had resigned over a large-scale havala (illegal foreign exchange) scandal. The award of telephone licences to a small company from the home state of the conmuunications minister was a talking point. By mid-December, the Reliance share-switching and duplicate share cases were also preoccupying MPs. Passage of government legislation stopped for ten days.

In a letter to Prime Minister Naraslinha Rao on 14 December 1995, a group of 27 MPs said that Reliance had not explained itself, so only deductions could be made:

One reason could be that Reliance investment companies have, as a very unfortunate market practice, been issuing duplicate shares to he used as collateral for finance. It is a foolproof system and won't come apart even if the duplicate shares are offloaded in the market. This is because the registrar which will do the transfer is a Reliance company. It will merely do a switch with another lot of genuine shares.

Mukesh Ambani had been in New Delhi meeting MPs and assuring them that share-switching was common practice. He explained that liquidity and tax minimisation were the reasons behind the switch. Reliance had two groups of satellite companies. One group was investment companies with large lots of shares who never sold. If they did sell, the capital gains tax would be huge. But they lent them to share trading companies in the second group who used them for initial liquidity in deals. Later the trading firms would replace them with newly acquired shares on which the capital gains would be slight.

The Ministry of Finance had asked the Unit Trust of India to check its experiences with 20 other big companies. It had found the share-switching practice not to be common at all. The Bharatlya Janata Party finance spokesman Jaswant Singh also produced two examples of Reliance shares, sold in 1989 by the Syndicate Bank, where shares of the same distinctive numbers appeared in two certificates. Mukesh's explanation was not wholly convincing.

On 20 December, the finance minister, Manmohan Singh, ordered a joint inquiry by the Securities and Exchange Board and the Department of Company Affairs, which had overlapping jurisdiction in applying company law. Singh asked all financial institutions to verify that their share portfolios did not contain switched or fake shares. The Income Tax Department would also continue inquiries it had started in 1992 into the tax evasion aspects of the scam. The Securities Board had already started inquiries on its own initiative, and gave an interim report in mid-January 1996.

According to this report the seven custodians of shares for India's investment institutions held between them 138.9 million Reliance shares, about 30 per cent of the company's paid-up capital. Out of these, 6.73 million had been switched-that is, the share certificates received back from RCS after transfers bore different distinctive numbers or transferor's names from those lodged. RCS itself found some more shares held directly, taking the total of switched shares to 7.03 million (4.7 million with the Unit Trust). Except for a very few shares, all the switches had taken place between March and October 1992. None were detected by the custodians. Those of the original shares not transferred remained with the original owners, who were 'trade associates' of Reliance.

The Securities Board investigators had found RCS less than helpful. According to their letter sent to the RCS chief executive in March 1996, the registry had given two differing versions of the Unit Trust share switch to the Board in December and thus neither could be trusted. RCS had reported corruption of its database and a loss of audit trail because of a conversion of computer systems . . . but 'the fact that corruption of data is predominant in select folios of the parties involved in switching makes the explanation of RCS untenable,' the Securities Board letter said. The records were a shambles, in effect, and much of them in the switching cases seemed to have been faked.

But perhaps the best insight into the Reliance back-shop operations came from reports filed by the Deputy Commissioner of Income Tax in Bombay, G. S. Singh, whose officials had been looking at the Reliance front companies since June 1994. Accord- ing to a report entitled 'Piercing the Corporate Veil', the taxmen had found 206 companies run by the Reliance company secretary Vinod Ambani from a Reliance office in Nariman Point. During 1991-92, Reliance had paid Rs 313 million to these companies in various fees, enabling Reliance to reduce its tax liability and the companies to settle their own losses or to make investments in Reliance shares and debentures in order to maintain management control.

In the tax assessment year 1993-94 (covering activity in the previous year, 1992-93), certain group companies had received nearly Rs 600 million from Reliance via Reliance Capital to buy rights attached to partially paid shares the affiliates owned in the twins, Reliance Polypropylene and Reliance Polyethylene. Each of the original shares in the twins had rights to no fewer than 40 new shares attached. The group companies had acquired the shares in the twins mostly in May 1992, at Rs 17.50 a share, soon after they were renamed on 19 May 1992. The rights could be exercised in the public issue at the end of 1992. The cut-off date for owning the rights, announced in the issue documents later in the year, was 6 June. It was a nicely timed investment by the 37 group companies. Reliance had later paid the companies Rs 39 for each

right-that is, for a Rs 17.50 investment, the companies had received Rs 1540. An investment of Rs 644.6 million in the twins' partly paid shares shows up in the Reliance accounts on 31 March 1993, accounting for the rights purchase plus fees to Reliance Capital. Those looking for insider trading before the twins' merger two years later had overlooked this earlier example of funds being taken out of Reliance.

The tax officers persevered, and focused on one example of the 206 front companies, Avshesh Mercantile Ltd, to give a detailed picture of sharemarket activities. Their account supported the explanation given by Mukesh Ambani to the MPs. The report by Deputy Commissioner Singh, dated 29 March 1996, traced another sale of Reliance shares to the Unit Trust, this time a lot of 3 million sold on 22 May 1992-four days after the. first GDR issue closed-by 13 group companies known as Group A. On that day, none of the 13 firms owned any Reliance shares. The shares delivered to the Unit Trust had been 'borrowed' from 14 other group companies, known as Group B. When the Trust sent them for transfer, the shares were switched for shares bought from Dhyan Investment & Trading, then a wholly owned subsidiary of Reliance Capital, and the originals returned to Group B.

Mahendra Doshi, the broker in the sale, said he had dealt with Anand Jain and Manoj Modi of Reliance Capital for the delivery of the shares. He knew nothing about the sellers; jain had told him the company names to which contract notes and bills were to be issued. The shares had been handed over by another Reliance Capital executive, Tushar Sarda, and the proceeds handed to him. Six months earlier, Doshi had carried out a similar sale to the Unit Trust of 2.2 million shares. Jain had initially denied knowledge of the 13 Group A companies, then admitted to being involved in the sale.

According to correspondence produced by RCS, the 14 Group B companies had requested the registry to inform them of any transfers lodged by third parties for their shares, because the shares were placed from time to time as collateral, on condition that they not be transferred in the name of the creditor unless approved by them. The tax inspectors said this was not supported by evidence, and the letters were found to be fabricated. The sales were real, and the income from them should be taxed. The swapping of shares was a systematic evasion of capital gains tax, by substituting the newly bought shares of Group A for the older and more cheaply acquired holdings of Group B. Not a single case of switching for sellers outside the group was found.

The tax-reduction explanation made some sense, but did not fit with everything that Reliance was saying. It had pointed out that the switching had been confined to the period March-October 1992, yet Mukesh Ambani had said it was a common practice. If it had made good tax sense in 1992, and had been legal, why not continue it?

Some business analysts tended to believe that the share- switching occurred as a part of the cover-up of Dhirubhai's close involvement with brokers in the 1992 scam. They speculated that shares handled by brokers such as Harshad Mehta and Hiten Dalal were hurriedly dumped on friendly institutions such as the Unit Trust and the Canara Bank funds as the scam broke in April 1992.

Others veered to the explanation put up by the 27 Ma in parliament, alleging systematic pledging of duplicates of shares owned by the Ambanis and other management investors, which would be switched if they were ever sent for ownership transfer in the company-controlled registry and would never be in marketable lots. The central bank inquiry into the 1986 loan mcia tends to contradict this latter allegation: it found that all the Reliance shares pledged by the group companies had been transferred to the names of the lending banks. But that was 1986. And if the banks had attempted to transfer the shares to a third party, the Reliance registry could still have intervened.

At least one former fund manager, admittedly no friend of Reliance, recalls a case in 1989 where a bank sold him shares pledged by Reliance. The company raised hell with the bank to get the shares taken back and exchanged for others.7

As the bedraggled Narasimha Rao government neared the end of its term, some other controversies came back to haunt Dhirubhai and Reliance.

In January 1996, the government filed an appeal in the Supreme Court against the ruling by the Customs, Excise and Gold Appellate Tribunal that had upheld the controversial 1989 decision of the former Bombay Collector of Customs, K. Viswanathan, to drop the charges of evading duty on the 'smug-

gled' polyester yarn plant at Patalganga (though the tribunal had said that duty should be reassessed on the four extra spinning lines that had appeared out of 'spare parts'). The petitions filed by Reliance in 1990 had delayed the tribunal hearing by three years.

Later that month, a team of CBI officials flew to Bombay and suddenly revived the case against Dhirubhai and others of backdating the letters of credit for the PTA imports in May 1985. Dhirubhai was ordered to appear in a magistrates court, but his lawyers successfully argued through the rest of the year against the need for a personal appearance. The case was a warning shot by Narasimha Rao. Reliance had been falling behind in the campaign funding it had promised the Congress Party, apparently seeing no point in pouring further money into a lost cause. The company was also suspected within Congress of stirring up the telephone licence scandal in order to distract attention from its own problems.

In 1995, a young police officer with the Central Bureau of Investigation in Bombay, Y P Singh, had begun digging into the private placement with the Unit Trust of India and the two government insurance giants in 1994. His request to see the papers on the placement caused panic at the Trust. The highly unfavourable placement had been forced on the institutions by senior figures in the Narasimha Rao government, he concluded. After careful study of the laws governing institutional investments, he drew up a report listing some 20 illegalities, including conspiracy and fraud, and recommending charges against a string of senior officials.

After picking up signs of discontent among Oil & Natural Gas Commission engineers 'during a visit to a Bombay High oil platform, Singh also began looking into the award of the Arabian Sea oil and gas fields to the Reliance-Enron-ONGC consortium in 1994. The bidding had been extremely bitter, with rival groups accusing Reliance of inside knowledge of tender evaluation criteria that were kept unclear for others. Singh found that the new owners had come into the fields with little compensation to ONGC for its past costs of exploration and preliminary develop- ment. The new operators had also been given a highly unusual bonus on the oil price guaranteed by the government.

Singh asked his superiors at the CBI for permission to start a preliminary inquiry. Instead, in March 1996, he was abruptly transferred back to the Maharashtra State Police, after being accused of mishandling another case. Singh lodged an appeal with an administrative tribunal. However, two other authorities-the Planning Commission member G. V Ramakrishna (a former Petroleum Secretary and Securities Board chairman) and the Comptroller & Auditor-General's office-took up similar criticism of the oilfield contracts. In October 1996, the private secretary of Satish Sharma, the petroleum minister at the time the con- tracts were awarded, told the CBI that Reliance had paid Sharma Rs 40 million between June 1993 and February 1994 (and that two other companies involved in bidding had also made pay- ments). Reliance denied the allegations

If Dhirubhai had rubbed Narasimha Rao the wrong way, his relationships with the opposition parties were also ambivalent. Sections of the Janata Dal and Left continued to regard him as anathema, yet he had successfully cultivated many of their leaders at state level. In the Hindu nationalist camp, he paid court to senior BJP leaders such as L. K. Advani and Atul Bihari Vajpayee. But a section of the party's MPs such as Jaswant Singh had been Ambani critics for more than a decade, and his old nemesis S. Gurumurthy of the Indian Express campaigns, had become a close legal adviser to Advani. Their hostility was often neutralised in party forums by a claque of Ambani supporters, such as the BJP secretary-general Pramod Mahajan, who once defended Dhirubhai as 'not someone who sleeps with you then refuses to recognise you in the morning'. The metaphor cannot have been to the taste of the RSS-trained cadres of the party.

Within the BJP leadership, Dhirubhai became distrusted for the split he helped engineer in the party's Gujarat branch soon after it took power in the March 1995 state elections. Dhirubhai backed a lower-caste BJP leader called Shankersinh Waghcla in disputes with the newly elected chief minister, Iceshubhai Patel. In September 1995, the two openly split, and Dhirubhai flew Wagheia's faction of state MPs to the central Indian resort of Khajuraho, famed for its erotic temple carvings, to keep them together. Around this time, Vajpayee was appalled to find Dhirubhai on the telephone, putting forward a 'solution' to the Gujarat crisis: Waghcla should be made deputy chief minister. Highly embarrassed, Vajpayee refused. A year later, Waghela ousted Patel's faction and formed a government with Congress backing. It is not clear whether Dhirubhai had any intention to destabilise the BJP nationally or just install a cooperative state government to help his industrial plans.

Having gathered damning material on the share-switching cases, and little on the supposed 'bear conspiracy' against Reliance, the Securities Board and the Department of Company Affairs shuffled responsibility for prosecution between them, and eventually the decision fell into the limbo caused by the calling of elections for early May 1996. The elections produced a three-way hung verdict, with the BJP having narrowly the largest number of seats. It decided to form a government, knowing it was unlikely to pick up support. Vajpayee was sworn in as prime minister, with Jaswant Singh as finance minister and Ram Jethmalani as law minister-a combination unpromising for Dhirubhai.

India's first BJP government lasted only two weeks-but long enough for Jaswant Singh to order a show-cause notice to be issued to Reliance for breaches of the Companies Act. Jethmalani passed up on endorsement of Singh's order, saying he had made too many appearances for and against Reliance, and it passed to the next government to implement.

Dhirubhai had plenty of friends in the 13-party coalition which took over, including the new prime minister, H. D. Deve Gowda, who flew back to Bangalore to resign his job as Karnataka state chief minister in Dhirubhai's executive jet. Jaswant Singh's decision resulted in 29 charges being laid against Dhirubhai, other executives and his companies in a Bombay magistrate's court. One of the charges was a serious one, mentioning 'Intent to defraud'.

In October, the entire duplicate share and switching issue was wrapped up by a government decision to allow Reliance to 1compound' the charges-a process whereby a company simply pays a set fine for technical breaches and avoids a prosecution in court. Reliance had argued that the offences had been inad- vertent, due to pressure of work on the registry. No loss had been caused to shareholders, no gain to the company. The magistrate, A. M. Thipsay, agreed that intent to defraud had not been substantiated. The total penalty came to Rs 6.396 million, while the registry, RCS, was suspended from operations for six months from April 1997.

The penalty was 'very light', judged the Economic Times… if Reliance says it will clean up its act and actually set standards for securities transactions by joining the depositary [an inde- pendent, computerised share registry], it is because longterm self interests dictate so. A group depending heavily on international markets for resources has to be seen to have some basic corporate hygiene.' It was 'a tap on the wrist', agreed the Business Standard. The issue had ended with a whimper, the paper said. 'The case called for a lifting of the corporate veil, and judging whether the entire episode was more than a result of clerical error.'

It had been close, a crisis almost ranking with the 1980s Polyester Mahabharata, but once again' Dhirubhai had come through.

PANDAVA OR KAURAVA

Reliance emerged from the duplicate share and share-switching crisis without substantial penalty. The 'compounding' of the various charges reduced the scandal to a series of admitted technical offences against the Companies Act. The delay in the six-month suspension of its share registry allowed Reliance to inoculate itself by placing the major portion of its issued shares with the new independent share depository opened in Bombay at the end of 1996 and find a new registry for the rest. The stock thus remained tradeable and liquid throughout the suspension, and Reliance could claim virtue from taking the lead in using this long-overdue facility to protect investors.

But the corporate myth of Reliance Industries had been cracked. Its reputation with investors in India had been badly damaged. In those international centres of investment management most familiar with India at that point, notably London and Hong Kong, fund managers already felt burned by Reliance and the Ambanis after the Unit Trust of India private placement and the twin companies' merger in 1994. The share-switching and duplicates cases only compounded the deep mistrust.

The switching case had exposed- as somewhat hollow the much-professed devotion to the huge numbers of small investors. By the company's own defence, its share registry was inadequately managed. By the more severe of the accusations made against it in parliament, the registry was the heart of a cynical manipulation depriving investors of secure title to their shares and the ability to trade them freely, though this was never proved.

The performance of Reliance shares in the market was augmented by a sustained purnp-prirning effort, using the company's own funds or money raised from banks for other declared purchases.

Reliance's position as India's largest private-sector company was challengeable because of the opacity in its accounts on the amount of intergroup transactions included in sales and the possible artificiality of profits in some bad years. The emphasis on absolute numbers of sales, assets, profits and so on distracted attention from the ratios that measure the relative profitability or efficiency of a company, such as return on capital.

Transactions with the more than 200 'trading and investment' companies controlled or owned by the family management might point to investment profits being taken from Reliance to these companies. In other words, the Ambanis at least sometimes treated a company in which they have had normally a 26 per cent sharcholding as their personal property.

The huge private placement to the government financial institutions and the instances of funding from banks against pledged management shares undercuts the claim that Dhirubhai successfully by-passed the banks and raised capital chiefly from the public.

The long delays in completing projects after the early success at Patalganga in 1984 and the insatiable appetite for funds have raised questions about the company's efficiency in managing capital-even whether fundralsing and deployment had not become a more important activity for Reliance than making petrochemicals and textiles.

From late 1994 the Indian sharemarkets had gone into a malaise. There were objective external factors: a rise in interest rates attracting money into deposits, a sense that the economic reforms had stalled, political uncertainties, the Mexican crisis and its impact on other emerging markets, the bull run on Wall Street. But a feeling that Indian markets had not got. their house in order, and perhaps a sense of exploitation by the country's most traded company, had something to do with it as well.

Markets and sentiments turn around, but the widespread thinking in Bombay financial circles by the end of the 1995-96 crisis was that Dhirubhai Ambani and Reliance could no longer look either to Indian investors for the cheap equity capital that had financed their early growth or to the foreign portfolio funds that were so enthusiastic about them in 1992-93.

This is implicit in the company's resort to debt-raising in a completely new market from the middle of 1996. In five issues of pure-debt securities in New York between June 1996 and January 1997, Reliance raised US$614 million from international investors, with terms ranging up to 100 years-making it the first Asian company and one, of a handful worldwide to raise debt of such long maturity. A notable trend was a

resort to the American institutions, the pension funds and insurance companies, helped by an investment-grade rating from two agencies.

It would not be too cynical to say that the insularity of American investors and their relative ignorance of news from India helped greatly. But the announced plan to list these bonds on American stock exchanges has imposed new disciplines on Reliance, notably a requirement to shift its accounts to the 'generally accepted accounting principles' of the United States and Britain, rather than those followed up to then by Chaturved! & Shah, Bornbay. Its representatives abroad now insist that Reliance is a 'different company' from the Reliance of the 1970s and 1980s.

Early in 1997, in order to access even cheaper funds, the company was working out a way to lift its credit rating above the sovereign-risk rating of India itself. Most probably this would be achieved by means of a mechanism placing part of the funds back into high-rated investments outside India. This might seem highly artificial for a company so rooted in its own country, but it would be yet another source of pride within Reliance. Among the critics it would only confirm fears that Reliance was more powerful than the Indian state.

Dhirubhai Ambani built his company through outstanding abilities and drive on many fronts: as an innovative financier, an inspiring manager of talent, an astute marketeer of his products, and as a forward-looking industrialist. The energy and daring that showed itself in his early pranks, practical jokes and trading experiments developed into a boldness and willingness to live with risk that few if any other Indian corporate chiefs would dare to emulate. His extraordinary talent for sustaining relationships, and sometimes impressing men of standing, won him vital support from both governments and institutions.

The dark side of his abilities was an eye for human weakness and a willingness to exploit it. This gained him preferential treatment or at least a blind eye from the whole gamut of Indian institutions at various times. Over decades in India, some of the world's best minds had applied themselves to building a system of government controls on capitalism. Dhirubhai Ambani made a complete mockery of it-admittedly at a stage when the system was decaying and corrupted already. The Ministry of Finance and its enforcement agencies, the Reserve Bank of India, the Central Bureau of Investigation, the Securities and Exchange Board of India and the Company Law Board proved timid and sometimes complicit in their handling of questionable episodes concerning Reliance. The public financial institutions that held large blocks of shares in Reliance and had seats on its board were passive and acquiescent spectators, rather than responsible trustees for public savings.

Dhirubhai Ambani cautioned about the 'jealousy' inherent in the Indian business milieu. Reliance frequently, routinely, put any criticism or opposition to its actions down to motives of envy or a desire to pull down anyone achieving success. Throughout every crisis caused by exposure of alleged manipulations, its publicity took on a self-pitying 'Why is everyone always picking on us?' tone.

But the record tends to show that it was Dhirubhai and Reliance who often made the first move to put a spoke in a rival's wheels, whether it was Kapal Mehra, Nusli Wadia or, latterly, the Ruias of the Essar group. Coincidentally with disputes with Reliance, various rivals were hit with government inspections, tax problems, unfavourable press reports, physical attacks and, in Wadia's case, a damaging forgery, a deportation order and perhaps a conspiracy to murder him.

Reliance sought larger capacity clearances, lower duties on its imported chemical inputs, and higher duties on its finished products for itself-not for A players. It has been relentless in its use of monopoly or dominant market share.

The achievement of A these efforts has been the creation of an integrated industrial enterprise from the oilfield to finished textiles and plastics, certainly the largest in India's private sector and in some products among the world's biggest.. Dhirubhai has managed to stay in control of this growing, enterprise through his ability to master advanced technology and to come up with the funds to pay for it. By the end of 1996, the gas cracker at Hazira and its associated product lines were coming on stream. If the company continues to augment its capacities as planned, it should stay profitable as the external protection of the Indian economy is lowered.

There are several areas of risk. A combination of adverse business conditions, such as a simultaneous fall in petrochemical prices and drastic devaluation of the rupee, would make the foreign debt more expensive to service, and put the company in a squeeze if the actual physical investment it is intended to finance is delayed. No one outside the company's highest management can be sure exactly what further funding the company needs in order to sustain its expansion as well as its treasury operations--one highly respected Bombay financier estimates that it needs US$1 billion a year in new funding. If so, an unfavourable turn in investor or lender perceptions about Reliance, India or emerging markets in general could create a squeeze.

Another wild card is contained in the political hostility that Dhirubhai and Reliance have built up within India. Every party has its Ambani men' but this is no guarantee that no government will dare to take on Reliance or make an example of it. Most notably and ironically, Reliance is regarded with deep distrust at the senior levels of the Bharatiya Janata ", the Hindu nationalist movement that may well he the coming force in Indian politics-ironically because the BJP has positioned itself as the champion of the swadeshi or domestic capitalist (though like many clerical parties it is against monopolies). After 1996, Reliance may well be cleaning up its accounting practices and its share registry, but several investigations, tax demands and criminal prosecutions from the 1980s still remain open. Despite the settlement of the Company Law offences in the share-switching and duplicates cases, for example, it would still be possible for a government to launch prosecutions under the Indian Penal Code.

The danger could be precipitated by another display of hubris like Dhirubhai's remark to Ramnath Goenka, or if his sons, when they take over the running of Reliance completely, overreach themselves. A split between the two sons, or between them and the professional management or with the big institutional investors now appears unlikely, but could emerge once Dhirubhai's influence is gone.

The wider lessons about India would seem to include a caution to foreign investors about the effectiveness of India's 'British-style institutions and practices'. Investors might like to ponder how much help and protection they would get if put in the position of a Nusil Wadia against a well-connected Indian rival like Reliance. On the other hand, the ANZ Grindlays bank did get its disputed Rs 5.06 billion back from the National Housing Bank through arbitration in India. The controversy of the mid-1990s provided an impetus to improve financial market regulations and functioning. But, at the same time, Dhirubhai is reckoned to have inspired hundreds of 'clones' who have set out to win at all costs and by all means.

Some of India's leftwing politicians and academics see a case for a return to tight controls, even tighter than those applied in the 1970s, and more sustained policing of them. The Reliance story would suggest that those controls were unenforceable in the absence of an entire administration of Plato's guardians of the republic. It may seem a trite re-endorsement of the prevailing economic philosophy, but the fairest and most efficient environment would be created by dropping barriers to the movement of capital, industrial inputs and products in and out of India.

It is possible to draw several conclusions about India from the Reliance story There is the flowering of individual endeavour and entrepreneurship from a traditional, isolated backwater like Junagadh; the accumulated ethic of centuries of business and banking among the Bania castes being transferred into modern corporations; the amazing numeracy of Indians from the poorest street traders to the high financiers; the way in which the age-old trading links to the Indian Ocean rim have been extended into Europe and North America by the past 20 years of migration.

Indians love to tell the joke against themselves about the exporter of live frogs to 'the kitchens of France. He didn't need to put a lid on the crates, because as soon as one Indian frog tried to escape, the others pulled him down. Perhaps Ambani's corporate war does show a tendency in the culture to blow the whistle when someone makes a run for wealth or success. jealousy can be strong in a crowded country with many qualified contenders for every opportunity, and where growth of those opportunities is slow or static. But the opposition that Dhirubhai stirred up was not always or even mostly envy, but often vigorous self-defence or a determination to extract the truth.

The country may never be an India Inc., but it has a certain self-correcting strength in its disputatiousness. The plurality of interests that its system acknowledges may prevent it attaining the high economic growth rates of more homogeneous and disciplined nations, but they provide safety valves and

mechanisms for gradual adjustment which prevent violent revolution or cataclysmic misjudgements by unchallenged rulers.

Many of the popular books on the Asian economic 'miracle' or the proponents of 'neo-Confucianism' or Asian values' seem to expect that India will progress only when it adopts the more or less enforced consensus patterns of East Asia. Some of the leading proponents of this idea in places like Singapore and Malaysia are themselves of Indian extraction. Others ignore India or rule it out of the Asian mainstream. It is tempting to draw a line down the Chittagong Hill Tracts, a rough racial divide between East and South Asia, and build a theory of Two Asias: one whose culture predisposes it to high economic 'success'; the other condemned to a slower cycle. But this is an error of extrapolation from a narrow period, ignoring historical factors including the different experiences of Western imperialism, the Pacific War, the American interventions in the countries of East Asia after the war, and so on. It fails to address the question of creativity in the underlying culture, and its significance for leadership in an information-based economy.

The disputes surrounding the rise of Dhirubhai Ambani tell us something else about India: how it agonises over the morality of change, of success and failure. The snappy analogy made by the tabloid newspaper Blitz in 1985, comparing the erupting polyester industry battle to the epic Mahabharata, actually cap- tured some of this dilemma.

On paper, the Mahabharata runs to millions of words and fills a dozen volumes, but the central story is that of the King Yudisthir,a who is torn between his innate sense of rightness and his earthly duty as a ruler in which cheating, lying, intrigue and espionage are expected under the dharma (law and duty) of that role. Against his conscience and inclination to withdraw from strife, Yudisthira allows his Pandava clan to enter a war of vengeance against the evil Kauravas, culminating in the bloodiest fight of A literature at Kurukshetra when millions are slaughtered on both sides-and a deception by Yudisthira turns the tide of battle.

Blitz hesitated to assign the roles of Pandava and Kaurava between Dhirubhai and his textile rivals in the 'MahaPolyester War'. This might have been just expedient and cautious. Many of the protagonists who stood up to Reliance, by contrast, had little doubt in their minds that it was a clear struggle between probity and deceit.

But among the many millions of investors and newspaper readers who followed Dhirubhai's ascent, there were probably very many who suspended judgement (and of course, many who were simply fascinated by the action, like the audiences of the Mahabharata who chat and smoke during the long philosophical dialogues). Was not a certain amount of deception just part and parcel of the dharma of a businessman? And just as Yudisthira's warrior brother Muna shrank from the prospect of killing so many good men in the Kaurava ranks, there was little appetite for seeing Reliance fall and the savings of so many investors put at risk.

There perhaps the analogy ends. Dhirubhai and Reliance have not faced a corporate Kurukshetra, though at times it must have seemed as though they were heading for an apocalyptic showdown. The questions raised during their history are not unique to India. What are the limits of ethical behaviour in a world full of surprise manoeuvres, innovation, inside connections and corruption?

And unlike the relentless order of the Mahabharata and other Hindu scriptures, modern capitalism does allow a process of redemption in the life of a corporation. Opium-traders, slave-owners, market cornerers, share raiders and all kinds of robber- barons have been able to transform themselves into establishment pillars by hanging on and consolidating during the system's periodic crashes. It will be Dhirubhai Ambani's greatest achievernent if his enterprise can move decisively beyond the shadows that fell on many of its middle years.

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