

# From Rags to Riches and Riches to Rags

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Dr. Ajitha Savarimuthu,  
Associate Professor, Acharya Bangalore B-School, Bangalore

## **Abstract:**

*One of the most audacious business people of his era was Dhirubhai Ambani. He became more optimistic and intelligent in handling business as he gave himself permission to take more calculated risks in life, which allowed him to grow as a person. Dhirubhai Ambani had to take various chances, such as leaving his nation for employment, quitting his position to launch a business, changing the direction of his company from selling spices to yarn and forging new commercial ventures like petrochemicals. Mr. Dhirubhai Ambani was a remarkable individual who always valued hard effort, creative and problem-solving, which helped him become India's most successful businessman, a true 'rags-to-riches' tale. Anil Ambani, previously one of the richest individuals in the world, has nevertheless lost \$42 billion wealth. Anil Ambani was able to transform himself from the richest man in the last century to the poster child for the phrase "riches to rags" Anil Ambani, once the sixth-richest billionaire in the world with \$42 billion in assets, informed a UK court in 2020 that his net worth had fallen to zero and that he became a pauper to Chinese banks. The case enlightens on fail of family business on the second generation due to lack of managerial skills and overconfidence on diversification.*

**Keywords:** Raise, downfall, Rags to Riches and Riches to Rags

## **Early Life of Dhirajlal Hirachand Ambani**

On December 28, 1932, Dhirajlal Hirachand Ambani was born in the village of Chorwad (Gujarat). The 3<sup>rd</sup> child born to a village schoolteacher and his wife, often known as Dhirubhai Ambani, he grew up in a low-income home. His first business venture was selling chaat-pakodas to pilgrims at Mount Girnar. After the tenth standard, he stopped studying. When he reached 17, he travelled to Yamen to work with his brother Ramniklal. Dhirubhai Ambani was manning a gas station in Yamen. Later, he rose to the position of business hiring manager. While in Aden (a city in Yamen), he additionally worked for Antonin Besse's at a salary of 300 Indian rupees. He spent some time working in Yamen before moving back to India. He desired to become a businessman while residing in Yamen.

When Kokilaben Ambani wed Dhirubhai Ambani in 1955, she had no idea how drastically her life would change. She got her first glimpse of Mumbai. She was travelling to Aden and was in awe of the steamer because it was another first for her. The way of life in Aden, where Dhirubhai briefly resided, was very dissimilar from Jamnagar or other locations she was born, yet Dhirubhai served as her mentor. For her, meeting Aden was a significant turning point. She gave birth to her first child Mukesh on April 19, 1957, in Aden (Anil, Dipty and Nina were born in Mumbai).

### Dhirubhai Ambani's Rise

When Dhirubhai Ambani returned to India in 1958, all he had was 500 INR. Together with his cousin Champaklal, he founded the textile company "Majin". In the past, Majin imported polyester and exported items like spices and rayon to Yamen. At the Narsinatha Street in Masjid Bunder, Dhirubhai Ambani established his first business in just 33 metres squared made up the workplace space. Ambani had only retained a few significant items in a 350 square foot space, including three seats, a phone, and a table. Dhirubhai Ambani and his family were residing in a two BHK apartment at that time. Ambani had strong marketing skills, was seen as a risk-taker, and thought that increasing inventories would increase income. In the late 1950s, Ambani started a company called Reliance Commercial Corporation to trade in spices. Following a strategy of providing higher-quality items and accepting lower profits than his rivals, he quickly moved into other commodities. His company expanded swiftly. Dhirubhai Ambani and Champaklal's relationship dissolved in 1965. It is thought that the reason their collaboration didn't work out well was because they both had different perspectives on how to run a firm. Ambani focused on synthetic textiles after determining that the company had exhausted its options with commodities. With the debut of the first Reliance textile factory in 1966, he embarked on his first venture into backward integration. He founded a business in 1966 under the name Reliance Commercial Corporation, which was later renamed to Reliance Industries. He continued to pursue a strategy of backward integration and diversification, gradually transforming Reliance into a petrochemicals powerhouse and later expanding the company's operations to include plastics and power generation.

Along with his brother Anil Ambani, Mukesh Ambani attended the Hill Grange High School in Peddar Road, Mumbai. Mukesh Ambani attended St. Xavier's College in Mumbai after finishing his secondary education. The Institute of Chemical Technology then awarded him a BE in chemical engineering. Kishinchand Chellaram College is where Anil Ambani

obtained his Bachelor of Science degree. Later, Mukesh Ambani enrolled at Stanford University to pursue an MBA. Ambani took Reliance public in 1977 after being turned down for financing by nationalised banks. Investor confidence in Reliance remained unwavering despite accusations of political manipulation, corruption, and engineered raids on rivals as a result of the founder's deftness in navigating a sluggish economy and burdensome government regulations and bureaucracy. This was due in part to the handsome dividends the company offered as well as the founder's charisma and vision. Ambani is credited with introducing the stock market to the typical Indian investor. Thousands of people attended the Reliance AGMs, which occasionally took place in sports stadiums, and many more watched them on television. Dhirubhai was hailed for his crucial role in influencing India's stock market culture by luring crowds of ordinary investors to a market monopolised by state-run financial institutions. He is credited with establishing the equities cult in India. He never behaved in a traditional style and was frequently criticised for his commercial tactics, which led to controversy throughout his life. The "Dhirubhai school of management" was adamant that the advantages accruing directly to the shareholders were the only factors that mattered.

Under Indira Gandhi, the Indian government allowed the private sector to manufacture PFY (polyester filament yarn) in 1980. Dhirubhai Ambani requested a permit to establish a PFY manufacturing facility. Because the government at the time was prohibiting large-scale manufacturing and making it impossible to import yarn for the textiles, getting the licence was a protracted procedure that needed strong connections within the bureaucracy system. Despite fierce competition from the Tatas, Birlas, and 43 other concerns, Dhirubhai, also known as License Raj, was given the licence. Dhirubhai drew his eldest son from Stanford, where he was pursuing an MBA, to work with him in the company, which at the time was still a tiny but rapidly expanding business, to assist him in building the PFY facility. Dhirubhai Ambani invited his

son back to India from Stanford to take charge of a yarn manufacturing project in his company because he believed that real-life talents were developed via experiences rather than by sitting in a classroom. After leaving his university programme, Mukesh Ambani oversaw Reliance's 1981 transition from textiles to polyester fibres and then further into petrochemicals, which the yarns were made of, as part of the company's backward integration strategy, in which businesses own their suppliers to increase revenue and efficiency. In 1983, Anil Ambani graduated from the Wharton School of the University of Pennsylvania with a master's degree in business administration. After joining the company, Rasikbhai Meswani, the executive director, received regular reports from Mukesh Ambani. The firm was created from the ground up with the idea that everyone should contribute to it and it shouldn't rely too heavily on a small group of people. Even though Mukesh Ambani had little experience, Dhirubhai treated him like a business partner and gave him the flexibility to contribute.

Midway through the 1980s, Dhirubhai Ambani gave his sons Mukesh and Anil Ambani control of the day-to-day operations of the business, but he remained involved in its management until just before his passing. Dhirubhai Ambani was suffering from a major stroke. His first stroke, which caused the paralysis of his right hand, had occurred in 1986. He was checked into Breach Candy Hospital following his second stroke. He fell into a coma for over a week before death on July 6, 2002. Dhirubhai Ambani, who contributed significantly to the foundation through his hard work and suffering, is entirely responsible for the love and respect that the "Ambani family" enjoys today. Today's commercial world is ruled by a company that began as a one-room operation, all thanks to the vision and tenacity of this remarkable guy. Reliance Infocomm Limited, founded by Mukesh Ambani and currently known as Reliance Communications Limited, specialised in projects involving information and communications technologies. When the business was substantially investing in oil refineries and petrochemicals, Mukesh

Ambani, then 24 years old, was given responsibility for the Patalganga petrochemical plant's construction.

Dhirubhai Ambani, passed away without leaving a clear succession plan. Anil and his brother Mukesh quarrelled, so their mother Kokilaben intervened and divided the family-owned enterprises between the two of them. Reliance Group assets including interests in telecom, entertainment, finance, electricity, and infrastructure were given to Anil Ambani and Mukesh Ambani had control of petrochemicals, oil and gas, manufacturing and refining. Anil's fortune was believed to be Rs 550 crore higher in 2006, a year after their father Dhirubhai Ambani's empire was divided than that of his older brother, who is currently Asia's second-richest person. Ambanis' expanded the Reliance Group, and today Reliance is a market leader in the industries of textiles, petrochemicals, power, and communications.

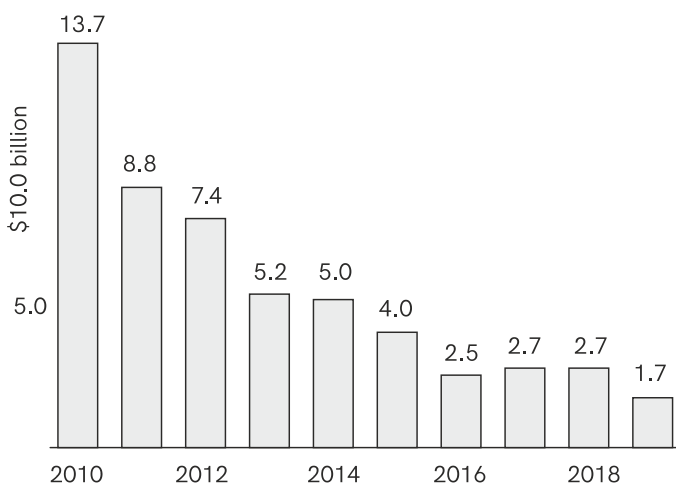
In 2004, Anil Ambani was also chosen to serve as an independent member of the Rajya Sabha. Anil Ambani is also credited with creating India's biggest initial public offering (IPO), that of Reliance Power, which in 2008 attracted the fastest subscription period in the country's capital markets' history. Ambani made his entry into the entertainment business in 2005 when he bought the majority of Adlabs Films, a business with interests in film production, exhibition, and digital cinema. In 2009, the business adopted the name Reliance Media Works. In 2008, Ambani's entertainment company was given a global platform through a joint venture worth US\$1.2 billion with Steven Spielberg's production company Dream Works. He helped with the creation of several Steven Spielberg movies, including Lincoln, which won an Academy Award. Since the creation of the Reliance ADA Group, Anil Ambani has become known as one of the fastest destroyers of shareholder value in the last 100 years, with the combined group market cap falling by 90%.

#### **Anil Ambani's fall**

Anil Ambani ranked sixth in terms of wealth in India in 2010. But after being accused of corruption in 2011, his fortunes started to tumble. Reliance Communications was accused of questionable 2G

spectrum allocation deals in 2011. The allotted spectrum to Reliance Communication was revoked after the con. Anil and his wife denied any misconduct and claimed they were unaware of how the management of the company made decisions. The Central Bureau of Investigation exonerated him of all charges in 2018. However, Anil's remaining success in the telecom sector was destroyed when his older brother Reliance Jio entered the market in 2016, sparking fierce rivalry.

**Anil Ambani's Networth over the years**



A significant day in the history of the Bombay Stock Exchange was February 11, 2008. Reliance Power's shares were launched on that day after the business raised a record-breaking Rs 11,563 crore in its IPO (IPO). It was expected that the IPO, which received over 5 million bids from all types of domestic and foreign investors and was oversubscribed by around 70 times, would do so. The government's announcement of intentions for ultra-mega power projects made the industry hot, and the Reliance brand had long been associated with outstanding profits. One of the largest portfolios of power production assets under development at the time, the company had stated it was working on 12 power projects with a total planned installed capacity of 28,000 MW. Reliance Power, his company, is accused of receiving an unauthorised advantage of about Rs 29,000 crore after the government permitted the use

of extra coal from mines connected to active projects. The company took a significant hit as a result of the charges, which ultimately forced it to incur significant debt. Anil Ambani's net worth fell from \$42 billion in 2008 to \$0 in 2017. "Investments made by Anil Ambani were valued at over \$7 billion in 2012; they are now worth \$89 million.

Due to its inability to make payments, Company declared bankruptcy in 2019. The corporation filed for bankruptcy because it owes Rs. 50000 crore in debt and has assets worth Rs. 18000 crores.

Asset management, life insurance, wealth management, commercial finance, and house financing were just a few of the financial services Reliance Capital dabbled in. The heterogeneous group of companies first appeared to have a lot of potential. But issues quickly started to surface. Reliance Home Finance Company was largely intended to give money to average people planning to purchase their dream homes, but it made more than 50% of its lending to other businesses as well, especially those involved in infrastructure and real estate development. Problems with cash flow beset these industries. But when they made loans to weak businesses inside their own group, things only got worse (Reliance Infra and Reliance Power). One can only image the situation in the Commercial Finance subsidiary when the Home Finance subsidiary was involved in this "inter corporate lending" issue (whose job is to lend to corporates). They were on the same page and continued to provide financial support to Reliance Group enterprises. And then, a domino effect started to happen when companies like Reliance Communications and Reliance Power started to fail and default on their loans. Even its own creditors were unable to be paid by Reliance Capital. It barely had Rs. 11 crores in cash as of March 2019. All of a sudden, no one was interested in lending money to the NBFC Reliance Capital. Thus, they lost access to funds. Reliance Capital started selling its shares in businesses that were actually doing fairly well in order to stay afloat. Now it is going through the bankruptcy procedure.

The financial health of some ADAG-backed firm

| Company                 | Financial Details   |
|-------------------------|---|
| Reliance Communications | Reported net loss of Rs. 5,791 in the year that ended on March 31, 2021, as against Rs. 42,671 crore a year ago             |
| Reliance Power          | Reported net loss reported of Rs. 388.84. cr. in the year that ended on March 21, 2020 as against Rs. 601.66 cr. a year ago |
| Reliance Capital        | Reported net loss of Rs. 1,075 Cr. in the year that ended on March 31, 2020 as against Rs. 1,513 Cr. a year ago             |
| Reliance Infra-         | Reported netloss of Rs. 771.17Cr. in the year that ended on March 31, 2020 as against Rs. 2426.62 Cr. a year ago            |
| Reliance Naval          | Reported netloss of Rs. 1760.74 Cr. in the year that ended on March 31, 2020 as against Rs. 10,926.55 Cr. a year ago        |

To buy big power plants, he took out large loans. They funded numerous power-related projects. He was anxious and showed improper aggressiveness towards the power industry. The Power Industry encounters some challenges, which they are unable to address, leading to an increase in debt. Additionally, they borrowed large loans to operate and expand Reliance Communication. The telecom sector is quite competitive for them. When JIO joins the market and a sizable portion of Reliance Communication's client base switches to JIO, the situation deteriorates rapidly. As a result of all of this, their firm is not expanding as much, and they need additional clients to stay in business. Reliance Communication was forced to file for bankruptcy in 2019. The incorrect diversification is another factor for the downfall of Anil. His business diversification was poor. They did not concentrate on one particular business and made it successful. They took out huge loans to launch new companies that

they had foolishly invested in the name of diversification.

A Mumbai court declared Ambani in contempt of court in the early months of 2019 for failing to pay a personally assured debt that Reliance Communications owes to the Swedish equipment manufacturer Ericsson. The judge gave him a month of time to come up with the money instead of sending him to jail. Ambani was saved by his older brother Mukesh Ambani bailed out for a month. After a secured NCD (Non-Convertible Debentures) default, three ADAG Companies struck a standstill agreement with Franklin Templeton in April 2019. Due to this, SEBI modified the mutual fund regulations, lowering the exposure to unlisted NCDs to 10% and nullifying standstill agreements. As a result, FT India wound 6 debt funds, which affected 300,000 investors, and chose not to liquidate the pledged securities. Anil Ambani and three Chinese banks were entangled in a legal dispute in February 2020. He claimed that his present net worth is zero after taking into account his liabilities after the court ordered him to set aside US\$100 million. The issue is still ongoing, and the UK court has ordered him to pay the three Chinese banks US\$716 million. Anil Ambani was mentioned in the Pandora Papers in October 2021. Anil Ambani who completed his Master in Business Administration at the Wharton School of the University of Pennsylvania informed a U.K. court in February 2020 that his net worth was zero. Mukesh Ambani who discontinued his MBA in Stanford has a net worth of \$91.9 billion. As his father he believed that real-life talents were developed via experiences rather than by sitting in a classroom became true.

### Conclusion

The story actually starts in 2005 when the Ambani brothers decided to divide the family firm. Financial services and the telecom industry were acquired by Anil Ambani. He was betting on what he believed could be the "future" of India. Having a stake in the company is necessary, but one must also manage it efficiently. To put it simply, the execution wasn't exactly flawless.

Anil Ambani continued to make bigger, bolder, and perhaps riskier bets in the power, infrastructure, and entertainment industries. Companies in the Reliance Group took on tremendous debt in an effort to expand no matter what. Anil Ambani's economic empire crumbled like a line of dominoes in 2017 when one organisation, Reliance Communications, failed. Following the Securities and Exchange Board of India's (Sebi) judgement prohibiting him from engaging with any listed firm, Anil Ambani resigned from his positions as director of Reliance Power and Reliance Infrastructure. His father raised from Rags to Riches and he turned himself from Riches to Rags.

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