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Braving the economic crisis through family values

When the economic crisis hit, the family owned and operated shipping-real estate Romav Group suffered a double-whammy. Practically overnight.

"In shipping we noticed a dramatic drop in revenues," says Romav Group Chairman **Deepak Gupta** (MBA '93J), attending INSEAD's Leadership Summit Europe held recently in Fontainebleau. "One was the actual dollar figure for everything that we were transporting, and then there was the drop in actual volumes that were being shipped … so the top line was traumatically affected overnight. The cost side, unfortunately, was not affected as much because all the costs were mostly fixed."

Romav's shipping business depends on demand from both the European and North American consumer, essentially buying products shipped from Asia, and reactions to market demands are sharp and swift. The real estate business, however, offered some wiggle-room.

"Luckily, property is not as volatile as liquid investments; there's no daily mark-to-market," Gupta states. "And we were fortunate in that the entire real estate portfolio (with which) we went into the crisis was already locked in, in terms of tenancies and the top line was still there … But what we realised within three months of the initial shock was that valuations were coming down, so on the balance sheet we had a problem figuring out asset values. On the P&L side, bank lending was becoming much trickier in the amount they were lending, what covenants they were attaching to loan agreements … so it was a double-whammy again -- on the balance sheet and on the P&L side."

Romav's reaction was fast and furious. There is little pricing power in the shipping business, unlike consumer goods or value-added services where prices can fluctuate. Romav reviewed its cost structure. "What we did was dramatic cost-cutting in the shipping business," remembers Gupta. "We stripped out everything that could be stripped out: entertainment, travel, variable bonus payments; we re-negotiated leases for offices. We lost money and we had to draw on reserves to keep ourselves going. But we did not downsize. We did not cut in terms of employee size or in terms of offices. We basically kept going on a much lower cost base."

As for its property side, the real trouble began when Romav had to re-negotiate all the fresh tenancies.

Their tenants were facing the same economic conditions they were. “We faced an immediate drop in terms of financial figures; but everything we had was filled up,” Gupta says of the company’s targeted high-end luxury residential market spread throughout London, Singapore and India. “So we were able to take a much longer view of this sector -- 20 years, rather than the usual five-year view of the property investor.”

The crisis forced the family to rethink its business model and attitude to debt -- hitherto unheard-of word in the company’s lexicon. “We realised we do need to take on debt,” says Gupta. “Debt is much cheaper than pumping our own equity into the business, so we realised it’s very important to have debt facilities in place at all times, even if you don’t use them; you must have them. Going forward we will use our own equity to actually expand the business rather than try and grow organically without any debt.”

Gupta and the family are also questioning the businesses themselves. “The shipping business requires cash flow -- it’s really a P&L business,” he says. “But the ROC (return on capital) for shipping is pretty bad: it’s like the airline business. You do it for passion but you don’t really get much out of it. So we are looking at whether we want to remain in shipping; and if we do, do we want to start acquiring shipping assets, which today are very cheap?”

While a recovery in shipping will depend largely on the return of consumer demand in Europe and North America, there is also the issue of new capacity coming on line: all the ships ordered in the halcyon days will be on the market in a matter of weeks. Not a good sign for pricing. The company’s real estate portfolio has better margins and a better future.

“I think we can significantly expand in India,” says Gupta. “Both in terms of our geographic footprint and in terms of the type of real estate we (have), so these are two key areas of expansion.”

The company and the family behind it will be revisiting their philanthropic endeavours as well.

Gupta himself has made endowments for students from emerging markets to INSEAD and to his undergraduate school, Carnegie Mellon, in Pittsburgh, Pennsylvania.

“As a family, our philanthropy has traditionally been ad hoc and it’s traditionally been in the areas of health and spirituality,” he explains. “But my experience shows that organised giving is far more efficient and effective than an impulsive, ad hoc giving programme. And secondly, a lot of problems we see in society, of health or spirituality or whatever, actually have their roots in people not being educated enough.”