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It is a challenge in the chemical industry to expand: Vijay Sankar

BY AMRIT RAJ
amrit.r@livemint.com

NEW DELHI

Chemplast Sanmar Group chairman N. Sankar (left) and deputy chairman Vijay Sankar.

mint INTERVIEW

Chennai-based Chemplast Sanmar Group has never chased meteoric growth even though it had opportunities to build businesses in areas such as IT and telecom. One of the reasons for that was strict adherence to its ethics. "If we had bent some corners somewhere, we probably would have been much, much bigger," said N. Sankar, the 71-year old chairman of the group.

"But, whether we would have been happy, we don't know," he said. But, the group has to grow at a faster pace and the responsibility of running the business is now with his son Vijay Sankar, deputy chairman. In an interview, the father and son speak on a range of issues such as their businesses, promoter and management relations, cricket, etc.

Edited excerpts:

A lot of people speak about the ethics that your firms have followed. In that context, when you look back at your journey, how would you rate it?

N Sankar: The group, Sanmar Group, starts from 1972, which is when I struck on my own and acquired Chemplast. So, from 1972, having started off in a small way, we were able to bring in whatever style of management I wanted—conservative accounting, honesty in accounting, way of doing business and ethics being a part of that. As the group grew gradually, we were able to bring that style to the rest of the businesses. Those companies had existing cultures. We took some time to change.

The other question is whether strict applicability of our ethical guidelines have helped us... Yes and no! Yes, I mean... if we had bent some corners somewhere, we probably would have been much, much bigger. But, whether we would have been happy, we don't know. Overall, I am content. As far as the future is concerned, we have to grow much faster.

After liberalization when Indian businesses actually opened, what are the things you could have done differently?

N Sankar: I could have made a big hit in software. I could have started a tyre plant. What are the other things that make money now? You know it is difficult. For example, my brother Kumar was way ahead of the market when it comes to software. He started software much before the boom and he got out, saying it was very slow.

We acquired the licence for mobile telephony in Karnataka, Andhra Pradesh and Punjab. Sunil Mittal acquired that and that is his biggest base now.

We invested Rs10 crore and now it must be in thousands of crore. But we concentrated on the businesses that we wanted to be involved in. There are so many things that I wish I had done. But, looking back, and saying I wish could have done does not make any... (sense).

In your PVC business, there seems to be a lot of concern around import duty, which is about 7.5%.

Vijay Sankar: Obviously, we would like it to be higher as a domestic manufacturer. There are other negatives that the industry faces. We don't have a pipeline network that gives us feedstock. We don't have the advantage of low-cost feedstock like the US or Saudi Arabia. We don't have the transport infrastructure of China. It is a challenge in the chemical industry to expand.

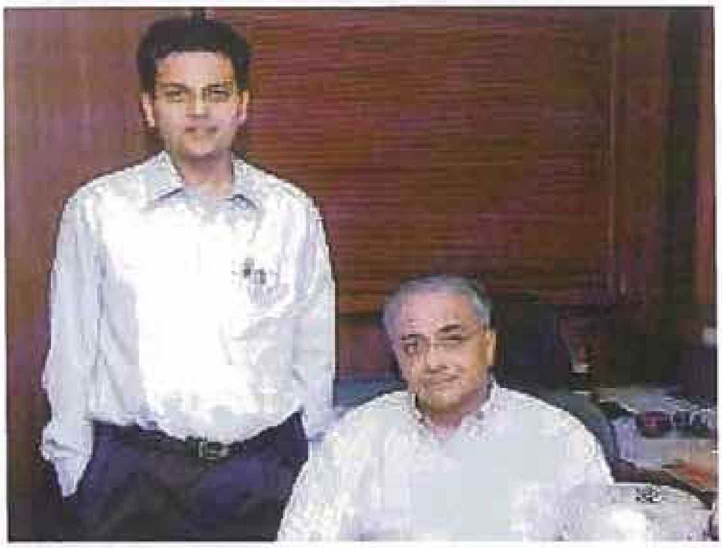
We would like a level playing field. Since the government is not going to be able to invest in a pipeline network from Mumbai to Gujarat or to South, we think duty is a means to allow us to (reach) a global scale. We want foreigners to come in and manufacture in India. We are just saying that don't allow them to set up plants in Saudi Arabia, Thailand or Malaysia and bring products here.

N Sankar: There is another key to it, which Trump has raised, which is national security linked to imports. He says, you can't depend on Japanese and Korean steel to make American arms. That's true in Indian sense also.

As Vijay mentioned, India consumes 3 million tonnes of PVC consumption, of those 80% goes to the water programme. For some reason, if imports are cut off, where would your water programme be?

Mint, 05.05.2017 Page No. 6 (Corporate)

Chemplast Sanmar plans $300 million investment to turn around Egypt business



Chemplast Sanmar promoters Vijay Sankar and N.Sankar.

In a bid to turn around its business in Egypt where it has invested $1.2 billion in eight years, Chemplast Sanmar will infuse an additional $300 million in the country, a top company executive said.

Backed by billionaire Prem Watsa, who invested $300 million in the Chennai-based polyvinyl chloride (PVC) manufacturerin2016, the firm is betting on improving economic and political conditions in Egypt, mired in years of political upheaval following the Arab Spring.

Taking into account its operations in Egypt, the promoters N. Sankar and his son Vijay Sankar have set themselves an ambitious target, to increase Chemplast's revenue to Rs10,000 crore in about 10 years from the present Rs6,500 crore. The company turned 50 on Thursday. This will mark a major shift in strategy at the company that has been conservative about its expansion plans.

This, despite growing from about Rs800 crore in sales in 2006-07 with assets of similar amount to about Rs6,500 crore in sales today. Its PVC capacity will grow from 60,000 tonnes in 2006-07 to 765,000 tonnes by April 2018.

"We are investing $300 million in doubling our PVC capacity (in Egypt to 400,000 tonnes). One particular approval to build a pipeline did not come through and as a result our alternative approach was to make entire finished product there to cut our dependency on the pipeline," Vijay Sankar, deputy chairman, Sanmar Group, said in an interview in Chennai on Wednesday.

Egypt's economy is expected to grow 4% in the year ending 30 June, according to a Reuters poll of 11 economists. The poll estimates economic growth will slow to 3.3% in 2017-18, and will accelerate to 4% in the following year.

Fortunately for Sanmar, whose business in the North African country has been in distress following the geo-political events surrounding the Tahrir Square revolution, the PVC market globally has started to look up. The market for PVC contracted in China for the first time during the year ended 31 March 2017 and in Europe the market has consolidated significantly, reducing the number of firms to five.

What's more, the Indian market is also looking up, Vijay Sankar said.

"So, where we are located, which is India and Egypt, are the only places where PVC is fast growing and are deficit markets, meaning it has to be imported."

Egypt has not been a happy story for Vijay Sankar ever since he took over the reins of chemicals company from his father N. Sankar in 2007-08.

In 2007, it acquired a small caustic soda making business in Egypt. "The idea was to expand VCM (vinyl chloride monomer) and PVC and bring VCM, which is a raw material for PVC, to India so that it becomes a fully integrated business," Vijay Sankar explained.

Egypt then was coming off 30 years of stable regime. Taxation was more progressive than in India and with project finance available, cost of production was low. Then all hell broke loose.

Financial markets collapsed after the global financial crisis in 2008, delaying Chemplast's plans to refinance the project.

"We had to change the mode of refinancing twice. Then the Egypt revolution hit—the Tahrir Square revolution and Egypt had seven governments after that," he said.

"One particular approval in Egypt (for a pipeline) did not come through so we had to reconfigure our plant totally. All that could go wrong went wrong," Vijay Sankar said.

"We were looking for investors for 4-5 years. Unfortunately, because of the location, nobody was willing to commit resources," he said.

Complex Securities and Exchange Board of India (Sebi) regulations in those days meant Chemplast Sanmar had to delist from exchanges to bring new investors.

"It gives us flexibility to attract somebody like Mr Watsa on board," he said.

A large part of Chemplast business is commoditized, which by nature, fluctuates and markets do not necessarily favour such businesses.

CHEMPLAST @50

A journey of innovation and reputation

Milestones on an Industrial voyage

- **Mettur, April 19, 1965** – R Venkataraman, Industries Minister, Madras, **lays the foundation stone** for the plant in the presence of Chief Minister M Bhaktavatsalam and others
- **Rupee devaluation** in 1966 upsets Chemplast's foreign exchange commitments
- Chemplast structured as a **joint venture with** BF Goodrich of the US, a major manufacturer of PVC; this was one of the earliest instances in South Indian business circles of equity participation by a multinational American firm subsequently exited
- **Plant inaugurated on May 4, 1967** by newly elected Chief Minister CN Annadurai in the presence of Union Minister for Planning, Petroleum and Chemicals Asoka Mehta
- **Special train** organised from Madras to Mettur for industrialists and dignitaries
- Chemplast commissions a greenfield PVC plant in Cuddalore in September 2009, **with an annual capacity of 300,000 tonnes**
- **Chemplast has four product groups:** PVC resins, caustic soda/chlorine, chlorinated solvents, and refrigerant gases
- **In April 2012,** Chemplast Sanmar went in for a voluntary de-listing of its shares from the stock exchanges to give an exit option for its retail and institutional investors; **exit price at ₹15 a share**
- **It now has manufacturing facilities** at Mettur, Cuddalore, Panruti and Vedaranyam in Tamil Nadu, and Karaikal in Puducherry
- **Chemplast to invest ₹425 crore to expand and diversify;** to form an equal joint venture with Kem One of France for making chlorinated PVC and to diversify into making hydrogen peroxide

Tracing the tribulations and triumphs of the Sanmar group's flagship company, which celebrates its golden jubilee today

N RAMAKRISHNAN

Chennai, May 3

For 75-year-old N Sankar, Chairman of the Chennai-based Sanmar group, the golden jubilee celebrations of group flagship company Chemplast Sanmar on Thursday mark a personal milestone too. It was 50 years ago that he joined Chemplast as, in his own words, an unpaid apprentice.

"Actually, the first day I saw the company was on May 4, 1967, the day of the inauguration," he recalls, seated in his eighth-floor office on Cathedral Road. It is a searing summer day, but his office is comfortably cool – and markedly quiet, except for the hum of the air-conditioners; the sound-proof glass does an admirable job of shutting out the blare of vehicles speeding below on the busy road.

In that oasis of calm, Sankar recollects the challenges, the triumphs and tribulations of the 50-year journey of Chemplast.

Sankar had just returned from the US in early 1967 after completing a Master's degree in chemical engineering when his father, KS Narayanan, asked him to come for the Chemplast plant inauguration in Mettur, Tamil Nadu. A galaxy of dignitaries participated in the event, including the then Union Minister for Planning, Petroleum and Chemicals Asoka Mehta, and the newly elected Tamil Nadu Chief Minister CN Annadurai, with some of his Cabinet colleagues. "They had a special train going from Chennai. Those days that was a big thing," recalls Sankar.

The company, Chemicals and Plastics India Ltd, known to most as Chemplast, was to make PVC from ethylene. Chemplast was a joint venture with equity participation from BF Goodrich of the US, a major PVC manufacturer. It was also one of the earliest instances in South India, known for its conservative business outlook, of a joint venture between an Indian company and a foreign collaborator. In fact, joint ventures are a defining feature of the Sanmar group; it has at least half a dozen of them.

The ethylene for the plant would be generated from alcohol and chlorine; Chemplast's plant in Mettur was close to Mettur Chemical and Industrial Corporation, which made caustic soda and generated chlorine as a by-product. Alcohol was sourced from Trichy Distilleries and Chemicals, which set up a distillery to convert molasses from the sugar operations of a group company into alcohol.

A little over a fortnight after the inauguration, Sankar joined Chemplast as an unpaid apprentice. "The idea was just to learn," he says. The initial years were a good learning experience, says Sankar, especially since he reported directly to S Ramaswamy, who was General Manager at that time, in a role that would now fit the profile of an executive assistant. "He gave me a lot of authority and freedom and had tremendous confidence in me," says Sankar of his training under Ramaswamy.

Then and now Industrialists and other dignitaries at the inauguration of Chemplast's plant in Mettur on May 4, 1967. The then Chief Minister CN Annadurai can be seen. (Right) The Mettur plant, built with foreign collaboration, as seen today.

Challenging phase

The early period was quite tumultuous for the company. Shortly after it started, PVC prices collapsed; then one of the equipement failed, creating a major problem. Thanks to BHEL, as a special case, the equipement was replaced. "Chemplast went through some very difficult times for two-three years," says Sankar. "But they were interesting times. I learnt a lot."

Chemplast itself was a result of the industrialisation drive under R Venkataraman, Industries Minister in the erstwhile Madras Government, under which various industries were identified and special incentives given. KS Narayanan had taken the group's first steps into the chemicals business when he acquired an ailing facility in Coimbatore that was making calcium carbide and turned it around.

When Chemplast launched its 6,000-tonnes-a-year plant, PVC as a product was just taking off. There were two other manufacturers in the country: DCM and Calico. About six months after Chemplast started operations, Nocil entered the sector, leading to a supply glut, and a price collapse. But, says Sankar, the availability of a commodity spawned a huge downstream industry. The annual consumption of PVC then, according to Sankar, was 7,000-10,000 tonnes. Today, it is 2.5-3 million tonnes, a bulk of which is imported.

Sankar rues the excessive dependence on imports today. Even 10 years back, domestic production accounted for almost 90 per cent of consumption, but there has been no fresh investment in capacity creation for almost a decade. Chemplast's own greenfield plant at Cuddalore, which went on-stream after a lot of hiccoughs, was the last major investment in PVC. "The situation is not conducive for local manufacture. It is easier to import and sell. People are setting up capacities all over the world to sell to India. The market is here," emphasises Sankar.

A number of reasons, primarily infrastructure bottlenecks and an unfavourable duty structure, make domestic manufacture unattractive. That is something that Sankar would like the government to address in all seriousness.

Looking ahead

What needs to be done? Sankar favours going back to the old system of having specialised cells in the government looking at and addressing issues relating to industry, not just the PVC sector. First, he says, "stop considering all businessmen as crooks."

Instead, work with them and find out what is required for each sector. Nearly half the three million tonnes a year of PVC used in the country is imported, and most of it is done by traders, who bring no value addition, he points out. Give proper infrastructure and some duty protection for domestic manufacture to take off.

He also makes a persuasive case for duty protection for the PVC industry.

Almost 95 per cent of PVC goes into making water pipes. The entire water distribution in the country is dependent on the availability of PVC pipes. If, for some reason, PVC imports are hit, the country's water system will go for a toss. Sankar refers to US President Donald Trump's observation that America's armaments industry cannot be dependent on steel imported from Korea and Japan, as there is a security implication.

India too, says Sankar, faces the same predicament with PVC. Therefore, it is time the government took a look at this issue and outlined policy initiatives, including some protection for a specified number of years. The industry will respond positively.

"Allow us to make some reasonable money, then we will put it back," he says.

In expansion mode

In the past 50 years, Chemplast has expanded its PVC capacity in India to about 3.66 lakh tonnes, including about 300,000 tonnes at Cuddalore, making it one of the leading producers of PVC in the country. It can expand to about a million tonnes, but getting assured raw material supply is the hitch.

The Sanmar group forayed into Egypt when it bought over a company at Port Said, where it planned to make 400,000 tonnes of monomer, half of which will be shipped to Cuddalore for use in the plant there. This plan suffered from the unrest in Egypt, and the Suez Canal authorities refused permission for moving the commodity. The Sanmar group is now expanding the Egypt plant.

Chemplast now has plants in Mettur, Cuddalore, Vedaranyam and Panruti in Tamil Nadu and Karaikal in Puducherry, and makes PVC resins, caustic soda/chlorine, chlorinated solvents and refrigerant gases. It has its own captive power plants and two marine terminals to handle the raw material imports.

Sankar says he is proud of two things as far as Chemplast is concerned. One is innovation. Long before it became the norm, Chemplast decided to have zero liquid discharge at its plants. To mark its golden jubilee, Chemplast has sponsored a laboratory at the IIT-Madras to carry out research on zero liquid discharge.

The other aspect that Sankar is proud of is the group's reputation. "That is something we have worked very hard at. We have a very strong ethical code of doing business. We are very strict about it. We have never defaulted on a commitment, not just to our lenders, but to all our constituents," he says.

If he had one request of the government, what would it be? "Pick industry by industry, see what we need and give something special to incentivise local production, like there used to be in the old days," says Sankar. He is in favour of a wholesale bank, what was known as a development bank a couple of decades back.

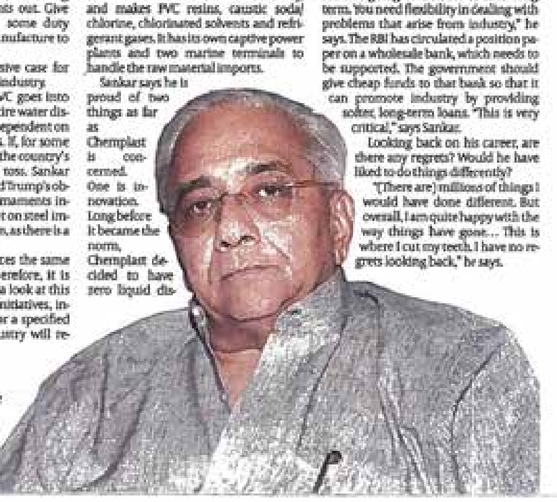
"Whatever name you call it, we need one in India now. Commercial banks are not cut out for promoting industry. They are not going to be able to lend long term. You need flexibility in dealing with problems that arise from industry," he says. The RBI has circulated a position paper on a wholesale bank, which needs to be supported. The government should give cheap funds to that bank so that it can promote industry by providing softer, long-term loans. "This is very critical," says Sankar.

Looking back on his career, are there any regrets? Would he have liked to do things differently?

"(There are) millions of things I would have done different. But overall, I am quite happy with the way things have gone... This is where I cut my teeth. I have no regrets looking back," he says.

We have a very strong ethical code of doing business. We are very strict about it. We have never defaulted on a commitment, not just to our lenders, but to all our constituents.

N SANKAR
Chairman, Sanmar group



Chemplast Sanmar to set up research lab at IIT-M

The facility will focus on Zero Liquid Discharge

OUR BUREAU

Chennai, April 28

Chemplast Sanmar, a leading manufacturer of chemicals and part of Chennai-headquartered Sanmar Group, plans to set up a research laboratory at IIT-Madras on Zero Liquid Discharge (ZLD).

N Sankar, Chairman, Sanmar Group

The lab, coming up at the Department of Environmental Engineering, will carry out research on ZLD and will have test bed facilities for user industries. The company will spend ₹1 crore on the laboratory that is being set up to commemorate its golden jubilee.

Chemplast Sanmar has adopted ZLD at its plants in Cuddalore and Mettur in Tamil Nadu and Karaikal in Puducherry. What this means is that no treated effluent from the plant operations will be discharged on to the land or sea. These plants completely recycle and reuse liquid effluents. "We were pioneers in adopting ZLD and it has since been adopted as the industry standard," N Sankar, Chairman, Sanmar Group, told *BusinessLine*, on Friday.

Also, as part of Chemplast Sanmar's golden jubilee celebrations, the company will improve the facilities at the IIT-Madras-Chemplast cricket ground inside the IIT campus. The pavilion at the ground was declared open in 1998 by legendary Australian cricket Neil Harvey. Chemplast, a patron of sports, particularly cricket, will now improve the facilities at the ground and establish the KS Narayanan Centre for Cricketing Excellence, named after late KS Narayanan, former Chairman of the group.

INNOVATION TAKES CHEMPLAST TO 50

JONATHAN ANANDA @ Chennai

From its infancy in the late sixties to now, set to achieve half a century of existence, Chemplast Sanmar Ltd., has been a company that has fervently believed in 'innovation'. Now, the second largest Indian producer of the ubiquitous plastic — PVC — Chemplast had much humbler origins.

"When Chemplast was founded on May 4, 1967, the total PVC capacity in India was around 6,000 tons," pointed out chairman of the Sanmar Group N Sankar. Chemplast entered the market with 6,000 tons per annum, but now produces over 360,000 tons, commanding a 50 per cent market share. It also boasts $425 million in revenue and an EBITDA margin of around 15 per cent.

But the idea for Chemplast itself came from an innovative attempt to use byproducts. "The idea was to make PVC from unique materials," said Sankar. Officials at the Mettur Chemicals and Industrial Corporation's Plant in Mettur were trying to figure out a way to use chlorine produced as a byproduct and Chemplast's promoters hit on PVC.

"But for the first time, they began making the ethylene, the other raw material, from molasses — a byproduct of sugar plants, which was going to waste. The method was green, even before the term was coined. It was made from renewable raw materials — sugar and salt (for chlorine)," he recalled. The company's DNA retained the fervency for innovation — continuing after Sankar's Sanmar Group took over the company in 1977.

It was Chemplast, pointed out Sankar, that pioneered zero liquid discharge at the 80-year-old Mettur plant. It was also the first to fully import raw material (ethylene dichloride EDC), establishing coastal facilities on both coasts. However, the company has not had a rose-strewn path to success.

"Chemplast went through hell in the first few years. There have been extraordinarily good years and very bad years," pointed out Sankar, who started in the company as an unpaid apprentice under its first chief — S Ramaswamy. "There were technical difficulties during the first year itself, with the plant remaining shut for three months," recalled Sankar. The devaluation of the Rupee in 1966, increased the project cost by 60 per cent, and price wars reduced PVC prices by 50 per cent. But Chemplast broke even by 1972, and from 1977, has been expanding under Sankar.

Now, the industry veteran sees huge potential in PVC in India. "There is a big gap between domestic production and demand. Most of this excess consumption is being met by imports. But, there needs to be positive inducement to manufacture here — the costs of setting up here are high," he pointed out.

Chemplast however, is planning to expand its suspension PVC capacity to 1 million tonnes, is investing ₹100 crore in a hydrogen peroxide plant and ₹325 crore in a joint venture with Kem ONe SAS to produce CPVC. The parent $1.5 billion Sanmar Group has also made a major foray in Egypt through TCI Sanmar and its chemical businesses are set to expand after receiving funding from investment firm Fairfax.

Sanmar Group chairman N Sankar speaks about 50 year journey of group flagship Chemplast Sanmar Ltd. | D SAMPATHKUMAR

> **Chemplast went through hell in the first few years. There have been extraordinarily good years and very bad years. It was always a roller-coaster**
>
> N Sankar, Chairman, Sanmar Group

After Fairfax funding, Sanmar steps up expansion

T E NARASIMHAN
Chennai, 20 April

The $1.5-billion Sanmar group, which is backed by Canadian billionaire Prem Watsa's Fraifax, is well on its way to becoming one of the top ten global players in poly vinyl chloride (PVC), a light-weight plastic commonly used in construction.

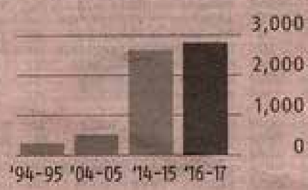
The group has lined up investments of over ₹2,500 crore to ramp up its capacity to manufacture PVC at its plants in India and Egypt. The Egypt project is expected to be completed by April 2018, and become operational in the next eight months after that. Once on stream, it will lend significant cost advantage to Sanmar, allowing it to compete on prices in Turkey and other countries neighbouring Egypt.

Set up in 1962 in Chennai, the Sanmar group has expanded through the years into new geographies and categories. Currently, it has manufacturing facilities in India, the US, Mexico and Egypt. Of all the segments it operates in, the chemicals business is the largest.

"Even to catch up with Thailand, we would require one PVC plant every year for the next 20 years"

VIJAY SANKAR
Dy chairman, Sanmar Group

A GROWING BUSINESS
Chemplast Sanmar's sales (₹ cr)



Unlike elsewhere in the world, India has not seen any new player or capacity addition for PVC in the last 10 years, even though nearly 50 per cent of the country's demand is met through imports.

The sector is plagued by several challenges, including high cost of power and transportation. In the absence of a network of pipelines to carry finished products, it is difficult for manufacturers to transport chemicals from one point to another. Besides, since the industry does not have shared effluent treatment capacity, each manufacturer has to set up its own effluent plant and that deters prospective investors.

Yet Sanmar is drawn by the potential for growth in the segment. The chemical industry is estimated at around $104 billion in India and is the single largest contributor to the country's industrial production.

The demand for chemicals, which booms when the auto, housing and construction sectors are doing well and slumps when economic growth slows, is set to grow 10-12 per cent annually.

"On a per capita basis, chemical is largely an under-served industry in India, whether you look at polymers, speciality chemicals or any other segment," says Sanmar group's deputy chairman, Vijay Sankar.

The per capita consumption of PVC in India is 2 kg, compared to 8 kg in Thailand and 13 kg in countries such as the US. "Even to catch up with Thailand, we would require one plant every year for the next 20 years," says Sankar.

No wonder, Sanmar is on an expansion spree. It is investing ₹100 core on a hydrogen peroxide plant and ₹325 core on a CPVC, or Chlorinated PVC, plant. The CPVC project will come up at Karaikal, near Chennai, and will be implemented in partnership with Kem One SAS, a European chloro-vinyl company. The plant will have a capacity of 20,000 tonnes and will go on stream in the next two years. Chemplast Sanmar will be the second company to manufacture this product in India for which technology is a closely guarded secret.

The hydrogen peroxide plant will be assembled at Mettur and it will be ready by next year. Both these projects together are expected to boost the group's revenue by ₹400-450 crore annually. The group currently has 10 per cent of the PVC market in India.

In addition, the company also plans to triple its suspension PVC capacity to one million tonnes in different stages from 0.3 million tonnes at present. This would cost around ₹ 600 crore.

Once the expansion projects are completed, Sanmar expects its revenue to touch ₹8,000 crore from ₹5,000 crore at present.

While the India projects are funded through internal accruals and borrowings, part of the ₹2,000 crore invested by Fairfax is being used for the Egypt plant.

CHEMPLAST SANMAR TURNS 50

Sankar bats for measured protectionism

New industrial enterprises widen space-time horizons as much as they as they incubate in a favourable, yet dynamically changing milieu. The decade since the late 1950s' in Tamil Nadu, widely acknowledged as the 'golden era of industrialisation' had laid the foundations for long-term growth of this Southern state. Piloting Chemplast Sanmar, the flagship company of the Chennai-based Sanmar Group, a US$ 1.5 billion industrial conglomerate, involved in Chemicals, Speciality Chemicals, Engineering, Steel Castings and Shipping, N Sankar, with a chemical engineering background and who is also Chairman of the group, will be completing 50 years with its core company, as Chemplast Sanmar Limited is all set to launch its golden jubilee celebrations on May 4, 2017.

Looking back at 50 years of Chemplast Sanmar, now one of the two leading PVC resins producers in the country, Sankar in an exhaustive interview to the 'Deccan Chronicle', spoke on a wide range of issues: Excerpts from the interview he gave to SHRUTI SURESH AND M.R. VENKATESH

N. Sankar

Q How did you foray into PVC and the building blocks of a 50-year-old enterprise?

SANKAR: I can't claim credit for starting the business, but I am very closely bound to the company. With the golden jubilee of Chemplast Sanmar I am also completing 50 years with the company. The first day I saw Chemplast was on May 4, 1967, when I first visited it on its inauguration day in Mettur where I happened to be that day. Officially, I joined Chemplast on May 22, 1967, after I had returned from the U.S. Chemplast started as a very unique idea those days. It was an outcome of R Venkatraman's (who as State Industries Minister in K Kamraj's cabinet had laid the foundation stone in 1965) thrust. The concept was to use two by-products that were being wasted and put value addition to bring a state-of-the-art product. One was chlorine at Mettur Chemical, a by-product and poisonous gas that had to be fixed and another was the noxious by-product of sugar mills, molasses coming out and spreading a stink around. The unique process we undertook involved making alcohol from molasses by fermenting and distilling it, from alcohol make ethylene and use that ethylene to combine it with chlorine to make PVC, a state-of-the-art polymer at that time.

It was a big deal to get a foreign collaboration those days and we managed to set up a joint venture, that too with a company like BF Goodrich, USA, a world leader in tyres and rubberised plastics. They came to work with us in India and invested in the company. The promoters of the company included my father (late K S Narayanan), T.S. Narayanaswamy, (late visionary industrialist and founder of India Cements), Loganatha Mudaliar and Palani ... they started the joint venture on May 4, 1967. This was the first big project that was commissioned after the DMK came to power in Tamil Nadu. Then Chief Minister, C.N. Annadurai, his cabinet colleague, V R Nedunchezhiyan were there, and Ashok Mehta, then Union Petroleum Minister was there. We started with 6,000 tonnes of PVC and today we are at over 3.50 lakh tonnes of PVC. It has grown, made a lot of progress, right from when Chemplast started...we have had very good and very very difficult periods, pretty standard for a commodity business.

Q The issues and challenges you encountered in your growth story?

A: When we started manufacturing PVC from ethylene and chlorine, with ethylene got from alcohol, it was an unusual process. We had set up a pilot plant in Boston and then here, when it was started, we ran into one big problem in two months. One of the Heat Exchangers corroded completely and the plant had to be shut down...those days you had to virtually import everything as you couldn't get chemical equipment locally. We looked around and BHEL Tiruchy did a special help to us; my father met V Krishnamurthy, who was then GM at the Tiruchy plant. They took it on as a challenge, as a special case, and in two months they fabricated a Heat Exchanger and gave it to us. This was one problem. ...There was another major problem after the foundation stone was laid. In 1965 when we started, we had a foreign exchange loan as we had to import most of the stuff. But in 1966, the Rupee was devalued and our project cost suddenly went up 50 per cent to 60 per cent!

The third problem related to PVC itself being in a fledgling phase then. Only two manufacturers of PVC then, DCM (Delhi Cloth Mills) and Calico Mills. Both added capacity and the prices collapsed by 50 per cent... So, the first three to four years was very difficult for us, there were labour problems too. By 1975, things turned around. Then prohibition was introduced (in Tamil Nadu) in 1977, while the import duty on PVC dropped to 40 per cent even in the 1980s', much before economic liberalisation. Then from 1967 when we started, till 1977 we were keeping things going. Then in 1977, (when Sankar was by then at the helm), we launched a number of things, started first with capacity expansion to 20,000 tonnes of PVC, set up a distillery in Krishnagiri to make our own alcohol as it was getting diverted (for drinking); then in the mid-1980s, we acquired Mettur Chemicals to ensure we had a source of chlorine...then acquired Aravind distillery to set up our second distillery for alcohol... we ensured all the raw materials got integrated by backward integration. And another big contribution was we brought in PVC pipes into the country. PVC pipes were not known then and people were using GI pipes or AC pipes.

Then we realised that we were constrained by the fact that we were land-locked in Mettur. As by 1980s', we started importing our raw materials and first we started with Ethylene dichloride, an important raw material. By late 1990s' and early 2000, we realised that to be in the chemicals business, we had to be on the coast... In that phase, we set up two new plants in Karaikal and Cuddalore.

In Karaikal, we acquired Kothari Sugars and caustic soda plant and set up an Ethylene dichloride (EDC) manufacturing plant based on imported Ethylene. By that time, local alcohol had completely dried up... So we made EDC at Karaikal and shifted it to Mettur. We had set up a marine terminal facility at Karaikal for that. The second marine terminal was set up at Cuddalore, when we expanded our PVC capacity (in 2007-08). But the day work on the Karaikal maritime terminal was to be started the Tsunami (December 26, 2004) struck! The canteen contractor had just set up his kitchen and he was killed! So we had to redesign the Karaikal terminal because the marine contour had changed. In Cuddalore, we faced political and quasi-political issue.

Q All your process remains the same and your new plans?

A: Mettur was with Goodrich. We make two types of resins: PVC Suspension resins and specialty Paste resin. We have converted the 68,000 tonnes Mettur plant to Paste PVC resin, while Cuddalore plant is making fully Suspension PVC (now making up to three lakh tonnes per annum). The technology for Cuddalore, one of the best in the world, came from Inios. We are also into other areas like Chloromethane and Poly-silicons ... For Chemplast as whole, we are planning to take PVC production capacity to one million tonnes. It will take time.

But on hand, we have two ambitious projects, one for manufacture of Hydrogen Peroxide and another for production of Chlorinated PVC (CPVC). The investment in the first will be around Rs.300 crore and for the CPVC project (at Karaikal), it will come up as a joint venture with 'Kem One SAS', a leading European Chloro-Vinyl company, with an investment of Rs.325 crore. It will take the PVC from the Cuddalore plant. For the Hydrogen Peroxide plant at Mettur, we want to add value to the waste hydrogen that is coming out and that can be used by the textile and bleaching industry in Tirupur.

Q The other markers that paved your path, particularly your mode of joint ventures that is touted as a model for Industry as such?

A: What we pride ourselves at Chemplast is growth with responsibility. We live up to all our commitments to all our stakeholders and constituents, whether they are our shareholders, employees, lenders or customers. We believe very strongly in the ethics of business. We have also published a code of ethics in the Group. In the last 50 years, the one thing that we take pride is in that reputation. The motto of our group says it all: Excellence with Integrity. That is mainly because of our people... We are lucky to have got some excellent people and we keep them, we take care of them.

There is our commitment to the Environment... I took a strong commitment against pollution. We always do what is the state-of-art technology at a particular time. But (pollution control) technology changes. I said Mettur will be a 'Zero Liquid Discharge (ZLD)', in fact all our facilities, but we decided to start with Mettur. It was a 70 year-old plant. We decided that we would recycle and reuse the liquid. We coined the world 'ZLD' and it has become a lexicon and a regulation norm used by the Central Pollution Control Board (CPCB). In our marine facilities, we don't use water from public sources. We have our RO plants both at Cuddalore and Karaikal, desalinate the seawater and use it. Then, we did another unique thing in captive power generation for a chemical industry.

In terms of corporate social responsibility, we supply water to the villages (near the Mettur plant), we run schools including one in Chennai, vocational training for women and we built the railway station at Mettur; we have been supporting tennis and cricket. As part of the golden jubilee celebrations, we are commissioning a research lab Chemplast-Sanmar ZLD Research Lab at IIT Madras, so that we help to improve the processes and develop new technology. We will initially put in ₹1.20 crore to set up the lab and it will grow further.

As far as our model of (getting into) joint venture partners, we treat our partners equally.

One will keep the other comfortable. We ignore the shareholding, whoever has the majority. The shareholding pattern only decides the share of profit or dividends. But the gains for both partners will flow only through the business, no side arrangements. There is total openness in the model. Give the best to the company and get the dividends.

Chemplast was the first JV. Goodrich had 26 per cent in the company then, very unusual those days... and mid-1980s' we have acquired 100 per cent. Two years back, we inducted Fairfax Corpn., they invested up to US dollars 300 million.

At the chemical group level, we have TCI Egypt. It is a joint venture of sorts and we have another JV coming up for the CVPC project with Kem One SAS of France.

Q As Tamil Nadu moves towards total prohibition in phases, how do you look at the scenario?

A: Is it moving? (Smiles). We do not use alcohol at all now (in our processes). In any case, the allocation (of molasses from sugar mills) is done by the State government. It is not viable to use molasses anymore; it is dicey. We use imported Ethylene and make EDC...I don't think there will be a molasses surplus situation... prices of alcohol has also gone up, so it is (alcohol route to making Ethylene) is not viable anymore.

Q The market for PVC has grown up, but supply is short. What are the challenges for setting up local production?

A: Till ten years back, local production was 90 per cent plus of the domestic demand; the demand was growing at 10 per cent to 15 per cent. The market (for PVC resins) today is over three million tonnes, of which nearly 50 per cent is imported. Local production has not grown at all recently. Our duty structure is not conducive for manufacturers. Our duty on PVC imports is lower than many developed countries. We are the biggest sink for PVC ... India is not doing it (adding to capacities) because it requires a lot of chlorine. An analysis is needed on the fiscal support to add to domestic manufacturing capacity, the duty structure has to be looked up...and when the world is little tightening up, incentives are required to promote local production, a little bit of protectionism even may be required... Out of the three million tonnes demand now in the country, 2.5 million tonnes goes into PVC pipes...the PVC pipes manufacturing depends on PVC... God forbid, if there is a war and imports are stopped, our entire water supply schemes will be affected...It is the same for any basic product/commodity we rely heavily on imports. So we need a national strategy for domestic production of basic commodities.

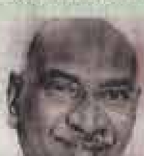
Of course commercial needs are there, but strategically we need to build capacity (in basic commodities). That used to be the strength in India and we have lost that. Sad part is we are the largest market for many such products next to China.

The future leading markets for most commodities are India and Africa...Our per capita consumption of such commodities now is one-third of countries like Thailand and Malaysia. If we have the demand as in Thailand, Malaysia or Indonesia, at least we can come up to a standard of living of these countries. The potential demand is there.

Don't look at businessmen as crooks: Sanmar chairman

M.R. VENKATESH | DC
CHENNAI, APRIL 13

Stepping into the eighth floor conference room of the Sanmar Group's headquarters in Chennai, one is reminded of the great Bengal painter Jamini Roy's art, modern in outlook and yet very traditional in drawing strength from one's indigenous cultures. The captain at Chemplast Sanmar, N Sankar similarly mixes both.



K. Kamaraj

As someone heading an enterprise, whose growth synchronized with the ups and downs of Tamil Nadu politics and the National politics at large in the last 50 years, Sankar makes a sober, very realistic assessment of broader social and political issues after the Kamaraj era.

"Tamil Nadu has done well, but it could have done better," muses Sankar when asked about the growing administrative corruption in Tamil Nadu and slippages in governance.

But significantly, "Prime Minister Mr. Narendra Modi is now doing a lot of things to improve governance and hope he would succeed," said Sankar. "He (Modi) is trying to work on his vision; he is trying to bring in a change in the psyche," adds Sankar.

However, "One has to look at businessmen as partners, not crooks; every potential businessman is looked as a crook; a few bad apples can't spoil the whole basket. Yes, businessmen want to make money, but majority of them are patriotic, don't want to harm the environment and are committed to the national idea of growth," says Sankar.

With a nostalgic sigh on his face, Sankar acknowledged that Chemplast's most ambitious project in the mid-1980s, 'Methem Silicon', did not really take off. "It was a very unique process; solar energy was just taking off and India wanted to set up a national silicon facility. At that time, efforts by a team of research scientists led by R V Raman, was being slowly integrated with Chemplast. They had their own processes to make polysilicon along with IISC scientists in Bengaluru. We set up a plant and then Prime Minister Rajiv Gandhi visited it (in 1985), the only visit by a sitting Prime Minister to a private sector plant after Nehru."

Since it was a "very electro-intensive process," Sankar said they were initially assured of power at lower and subsidized cost. But that did not happen. "Yet by the 1990s', rest of the world was developing newer technologies at lower costs and imports became easy. "The costs became totally unviable and so we had to close down as it did not make sense anymore," adds Sankar.

Chemplast next gen holds on to gold standard

■ HEMAMALINI VENKATRAMAN

CHENNAI: The city-based Chemplast Sanmar marks its golden jubilee of operations on May 4 this year. The company is part of the $1.5 bn Sanmar Group. For N Sankar, the Group Chairman, it's an extra-special occasion as it's a milestone for the flagship company he started in 1967. Having handed over the baton to his son Vijay Sankar, the Deputy Chairman of the group, with interests in chemicals, engineering, shipping and metals, the conglomerate is now ready for the next stage of its evolution.

Representational image

The Sanmar Group has been through the pre-liberalised era when licensing and bureaucratic hurdles have led to many start-ups ending their entrepreneurial journeys. "We reached our 50th anniversary with our heads held high and with reputation intact. That was our focus," says Vijay Sankar, recalling the various milestones and challenges the venture has gone through.

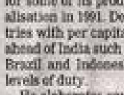
The five-decades have not been easy as there are not many Indian companies in the chemical sector that can boast of a similar achievement. "We have been innovating with time. We invested on research and development. Not many have managed that, especially the traditional manufacturing companies," he notes with pride.

Reeling out the 2017-18 business plan, he says the chemical business is expected to generate sales worth Rs 3,500-4,000 cr and other businesses contributing over 1,000 cr. Enthused by the PM's 'Make in India' scheme, the scion says it has tremendous opportunity for the industry if implemented in letter and spirit. "We should get back some of the opportunity that we have lost because the chemical industry – compared to many of the industries (in the limelight) which have bad assets or stressed asset pile, is not on the same level... we have managed to innovate by ourselves to a great extent. But we still have not achieved our full potential as the Indian market is huge," he says, noting that right incentives and provision of a level-playing field will make the domestic players more competitive.

"Any aspect of the chemical industry you take, the market is huge and but unfortunately there aren't incentives to expand. Either Indian or even foreign companies can come here and expand. But what they do is - they come here and dump products from overseas manufacturing units. We would like to change the approach to an India-centric manufacturing-led strategy," he points out.

Vijay dwells at length on duty-related drawbacks as he believes the WTO has not been leveraged to its fullest though the anti-dumping investigations have improved substantially. "When we attempt to tap markets like South Korea or Taiwan, we are unable to export there as the nations set up entry barriers using legal provisions. On the other hand, India is open to business from all. Although, the WTO can be engaged to our advantage, the competency of the officers in charge leave much to be desired," he laments, citing the instance of the company having to drop duties from 35 per cent to 5 per cent (even lower than US) for some of its products post-liberalisation in 1991. Developing countries with per capita income levels ahead of India such as Philippines, Brazil and Indonesia, had higher levels of duty.

He elaborates saying, "I believe this is unfair. Where is the incentive for somebody to manufacture? We don't have the feedstock and we don't have a natural gas advantage like Saudi Arabia or shale gas leg-up like the US. We don't have a pipeline network or common effluent treatment plants. Our interest costs and logistics costs are extremely high. But with all the negatives, we are not seeking protectionism... we are saying - give us level playing field and allow this industry to boom."



> We don't have a pipeline network or common effluent treatment plants. Our interest costs and logistics costs are extremely high. But with all the negatives, we are not seeking protectionism... we are saying - give us level playing field and allow this industry to boom **Vijay Sankar,** Deputy Chairman, Sanmar Group

So, does he view his entry into business as an inheritance or pursuit of passion? "Bit of both, I would say. I was exposed to it from a young age. So, it has always been an area of interest for me. The entry was almost natural, in a manner of speaking. I don't know whether it was pre-planned or structured," he says.

Vijay, a CA and MBA, draws inspiration from his father, a chemical engineer who is more finance-oriented than most finance professionals. Speaking on the contrast in core competencies between them, Vijay says, "A degree in chemical engineering is good, and not just because we are in the chemical industry. Legends like Jack Welch have also vouched that a chemical engineer offers the right combination for a business."

"I look up to my father, having worked with him for many years now. After four years of working with another senior professional, I have a 14-year-long working relationship with my father. It was a great training ground. I didn't have to look anywhere else," he signs off.

INTERVIEW | VIJAY SANKAR

First priority is reputation, then comes growth

'Even 10 years down the line, I want to see the same value system. If our reputation is not dented, I will be happy'

K.T. JAGANNATHAN
SANJAY VIJAYAKUMAR

Sanmar Chemplast, the flagship company of the Chennai-based $1.5 billion Sanmar Group, is gearing up to celebrate its golden jubilee. The company was in the spotlight when Canadian billionaire Prem Watsa invested $300 million through Fairfax India, an investment vehicle of the Fairfax Group dedicated to India. In an interview, **Vijay Sankar**, *deputy chairman, Sanmar Group, spoke about the company's 50-year journey. Edited excerpts:*

What does the chemical business portend for you as a company?

■ Chemicals is a very mature and balanced industry.

We are very committed to it. On a per capita basis, it is a largely under-served industry in India ... whether you look at polymers, speciality chemicals or any other segment.

Chemicals are a basic product used in day-to-day life right from shirts to cars. However, it does not attract the attention it deserves. Automobile and IT (information technology) sectors attract all the noise. Our industry is, however, more important than those.

Why is the chemical industry not getting that much attention?

■ A lot of it is business-to-business (B2B) largely. That could be one of the reasons. So, it is not a business-to-consumer (B2C) product like automobile or IT. Also, the chemical industry has got a negative connotation with the environment, which is unjustified, in my opinion.

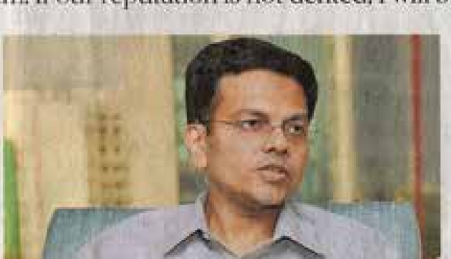
Do you have a comfortable presence in the industry?

■ It is a very broad industry, with different players working for different areas. We are in the polymer, chlorine, poly vinyl chloride (PVC) segments. The opportunity there is large. We want to be a dominant PVC company and also speciality chemicals. Financially, we are strong now. This can back our expansion plans. Our suspension PVC capacity is 300,000 tonnes, and we are looking to treble it in stages. Besides this, we are planning two projects - one for Hydrogen peroxide and another for chlorinated PVC.

You have been in business for 50 years. Have things become easier for you to operate?

■ Earlier, when we started, we had to import everything. Now, the fabrication capabilities and other support systems are available in India. So, in some ways, it is easier.

Despite being the single highest contributor to GDP (gross domestic product), the chemical industry does not get enough attention. Even our mother ministry is ... in many ways ... neglected



The chemical industry does not get enough attention

most of the times, and a lot of the resources are dictated [upon] by Ministry of Oil and Gas. This makes it difficult to get a policy focus when compared to other countries. We also don't have duty differential advantage. The government's plan to have a petroleum, chemicals and petrochemicals investment hub has not taken off.

With the Prime Minister on a stronger wicket now, we hope our industry will get the necessary attention.

What has changed in your group in 50 years?

■ We are one of the earliest corporate houses to professionalise our management. We strongly believe that it is the quality professionals who have driven our group. For us, our reputation is more important. We don't mind being dull or boring. Even ten years down the line, I want to see the same value system continuing. If our reputation is not dented, I would be very happy. Our first priority is reputation. Then comes sustainable, profitable growth.

What do you think of the availability of funds?

■ The biggest challenge is we don't have a good industrial finance option unlike the U.S. or Europe. We have lost our big project financing institutions, which have now become banks. I believe development finance institutions make a lot of sense. They can address the concerns of industries better in terms of project delays and ensure long-term financing.