

Business Standard

Chemplast promoter group to buyback shares from public

TE Narasimhan / Chennai Mar 30, 2012, 00:34 IST

The promoters and promoter group of Chemplast Sanmar Limited are planning to buyback shares worth Rs 90.60 crore from the public. The company has said that it has to reorganise and raise equity funds from the promoters and others to correct the situation, and that significant investment were required in terms of backward integration.

When contacted, the company management declined to comment. However, in a communication to the shareholders, it said, “The Company is going through one of the most difficult times in its history. The operations of the company have been severely affected by wide fluctuations in petrochemical prices, and compounded delay in accruing revenues from its large products due to delays in their commissioning.”

The PVC resins, PVC piping systems and caustic soda manufacturer, incorporated in 1985, has been incurring losses since 2008-09, which led to an erosion of its net worth to Rs 148.17 crore as on December 2011, as compared with Rs 174.44 crore as on March 31, 2011, Rs 216.62 crore as on March 31, 2010 and Rs 306.55 crore as on March 31, 2009.

“This has significantly affected the company with the debt: equity ratio as on March 31, 2011 being almost 6:1 Chemplast also has liquidity problems. To overcome these, the promoters are extending unsecured loans.”

Currently, the promoters are holding 75 per cent in the company, while the institutional shareholding is at around six per cent. There has been no trading liquidity in the stocks.

“We need to be reorganised and raise equity funds to correct the situation that the company is currently facing. It would take some more years before Chemplast is able to recoup the losses incurred in the past few years. Chemplast’s performance is heavily dependent on the swings in the commodity cycle, which affect the ability to deliver steady financial returns. Significant further investments may be required in terms of backwards integration, if these swings are to be avoided.”

Chemplast needs capital to address the liquidity issues, which the promoters are willing to infuse. However, with the promoters’ shareholding being 75 per cent, losses being incurred by Chemplast and regulations prohibiting the promoters holding over 75 per cent in listed companies and the current depressed state of the capital markets, options are limited, the company said in the communication.

“Under these circumstances, the promoters believe that the delisting option gives Chemplast the flexibility to raise equity resources from the promoters and others.