

VIJAY SANKAR / SANMARGROUP

Sanmar may go public in future to fund expansion

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Investment plans: Sanmar's deputy chairman Vijay Sankar says the group may invest ₹80-100 cr each year.

The family-owned Sanmar Group may consider selling shares for the first time to fund growth of its nearly \$1 billion (around ₹4,400 crore) chemicals, engineering and shipping businesses, group deputy chairman Vijay Sankar said. This could be an uphill task for the 35-year-old

Chennai-based group, which failed to meet its forecast to triple revenue to \$1.3 billion by 2009 following a capital-spending spree in 2007.

In an interview, Sankar talks about Sanmar's international business, its share sale and investment plans, and why it has put the brakes on further diversification. Edited excerpts:

Your Egyptian caustic soda plant had to come to a standstill for a month following political unrest there, and you hived off the German iron foundry business you acquired in 2007. Where do you think the group stands today?

We don't see them as major roadblocks because in the case of Egypt, we were actually happy because it was only a month's closure. The German iron foundry business exit wasn't really a roadblock. Five years ago, when we bought the foundry (which serves the auto component sector), it was the first time Indian companies were allowed to invest abroad. The group had surplus cash, and we were looking for acquisition opportunities. But then, we realized later that the auto component sector is very different from what we're used to in our engineering business and in our foundry business.

Does that experience mean you may not diversify in the future?

Our core areas are engineering, chemicals and shipping, which itself is very large. There is no constraint for growth in these three areas. And we are in the Indian market. India is facing a growth of 10-15% at least in the next 10-15 years. We have to just keep up with that growth. So we don't see any need to look outside these areas in the future, at least in the medium term.

In 2007, you embarked on a major expansion effort--you announced a plan to reach \$1.3 billion in revenue by 2009--that didn't happen, did it?

By March 2011, actually we reached `4,200 crore (\$942 million). For the current year, we have a target of 15-20% overall growth, a lot of it coming from our engineering business.

The chemical company you call your flagship company, Chemplast Sanmar, has had three consecutive years of losses. Do you see that changing this year?

A lot of it is not in our hands. A lot of it is oil prices and other factors. As I said, we're bringing on-stream our Egyptian plant this year. It depends on how the commissioning goes and how the product prices hold up. But certainly it has recovered from the earlier year.

In the last few years, Chemplast Sanmar had to face legal challenges based on environmental regulations to a coal-fired power plant in Mettur and a PVC plant in Cuddalore. Though both are functional today, there were major delays in their commissioning. What is your response to criticism on environmental grounds?

Our group philosophy has always been to be 100% in compliance with law as well as ahead of regulations as far as the environment goes. For example, in Mettur, we're the only caustic soda plant in the country--there are about 20-30 in the country--we are the only one which has got a second level failure protection if there is a power shut-off, if the backup shuts off, we have something that traps chlorine, and prevents it from leaking. Nobody else has it. These don't get spoken about.

Then how do you account for the criticism?

A lot of it is just noise. This is just a belief--but there are a lot of motivated elements that are not fully educated in these matters. Our doors are open--anybody can come in and see what we are doing. We believe that we've got the best standards, which are comparable to nobody else in the state.

What are your investments plans?

In the last five years, we've invested about `800 crore in our engineering business. And we see, based on current plans, about `80-100 crore per year in terms of investment going forward as well.

What are your sources of capital?

We've always looked at three sources. One is Sanmar's own equity--for example, in our foundry business, we ourselves have put in a lot of equity; internal accruals; and the third is debt. In future, with this growth coming up, we may have to look at going public.