

# Once crippled by debt, SPIC resurrects itself

After a turbulent decade, SPIC has staged an impressive rescue act, cleared 90% of its ₹2,800 crore debt and begun focusing on its core competence: fertilisers

TE NARASIMHAN  
Chennai, 6 December

A lot has been spoken about India Inc's growth story in the past few years, so it must be especially galling for one corporate house from Tamil Nadu which, in the last decade has completely missed the bus. SPIC, in its heyday was among the top ten industrial houses in the country and thrived during the license raj, but subsequently saw fortunes slump, and dramatically so in the mid-2000's. Now, however, thanks to a savvy restructuring programme and the scion of its erstwhile boss at the helm, SPIC has managed to emerge from the rubble of its past financial fiascoes.

If so, this would be a phoenix-like ascent from the ashes of a misconceived corporate strategy, as well as rising debt that it was unable to coral in time until it became an albatross that sunk the company. Yet, from a debt burden of around ₹2,800 crore, its financial triage has managed to whittle that down by 90 per cent primarily by selling assets, injecting fresh cash into operations as well as converting outstanding debt into equity holdings for lenders.

It couldn't have been easy. This meant flogging off properties, such as part of its landmark corporate office, 'SPIC House,' in Chennai. SPIC has also sold its business holdings in a variety of sectors including pharmaceuticals, bio-tech, SMO, Logistics, EDAC Engineering, portion of its shareholding in Manali Petrochemical and others. It booked ₹140.48 crore in profits last fiscal, and the proceeds were used to settle secured debts.

The man at the helm of SPIC is Ashwin C. Muthiah, who is a third generation scion of the MA Chidambaram (MAC) Group which founded SPIC along with Tamil Nadu Industrial Development Corp Ltd (Tidco) in 1969. Can Ashwin restore SPIC to its glory days? Sources say that Ashwin is now busy setting up a new management team by roping in professionals for both the corporate office as well as the factory as well.

## Born over lunch

So far, it appears that opinions on whether Ashwin can propel the company to new heights and regain the dominant market share that it once enjoyed are evenly split. Critics and people who have been tracking the company for three or four decades question Ashwin's ability and interest in the company. They say that sitting in Singapore (he is an NRI and lives there) isn't the easiest way to manage the company, that too at this critical juncture. Then, there are others who say that he will outperform his father and that Ashwin was one of the critical forces behind the recent restructuring and resurgence of SPIC. Ashwin himself appears buoyant about the future. "All the unfortunate circumstances are now behind us. Things are looking good at present and would continue to do so," says the 46-year old Chairman.

How did SPIC end up in such a royal mess? To unravel this story, we need to go



Spic's Tuticorin fertilizer plant (above). Three generations of Chidambarams: AC Muthiah (right), MAC (centre) and Ashwin (left) the new group head (below)

all the way back to 1969 when, as S Venkitaramanan, former vice chairman and president, SPIC and former Governor of RBI recalls, the idea of SPIC was born over a lunch, where he first discussed, the topic of fertiliser plant with industrialist MA Chidambaram and his son AC Muthiah. It so happened that DC Kothari who possessed a license for setting up a fertiliser plant at Tuticorin had abandoned the idea. MAC had once said, "...my desire to start a manufacturing industry proved to be my destiny." This was the chance he had been waiting for. Meanwhile, Venkitaramanan, who was Chairman of Madras Industrial Development Corporation as well as Additional Secretary —Industries, Government of Tamil Nadu at the time goaded MAC to act. "We made a suggestion to MAC to revive the same idea, following which TIDCO and SPIC jointly applied for industrial license and this is the first project, under public private partnership," says Venkitaramanan. In 1969 he decided to set up the Tuticorin plant. At its peak, SPIC had a market share of 68 to 70 per cent in Urea and 65 to 70 per cent in cosmetic fertiliser.

By mid-80s Spic's turnover crossed ₹500 crore and it became profitable. It invested in the LAB (bio-degradable raw material detergents) project of Tidco, named Tamil Nadu Petro Products. It also promoted Tamil Nadu Alkalines and Chemicals with Tidco to manufacture

soda ash. SPIC Electronics was set up to manufacture computer magnetic tapes.

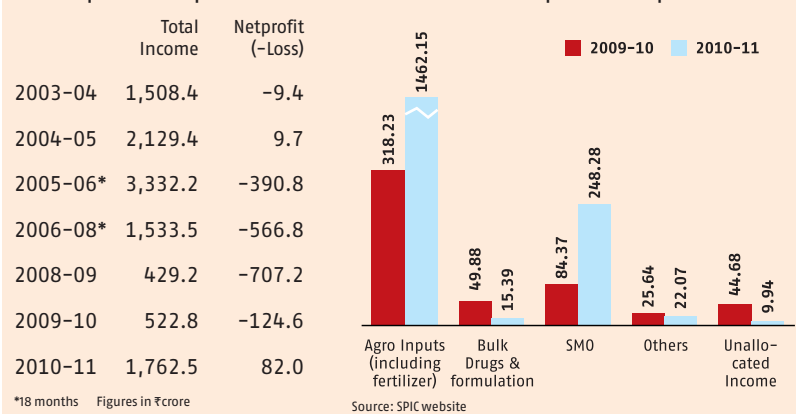
## Diversification woes

Then came a series of questionable forays away from the company's core competence. Muthiah diversified to petrochemicals, pharma, electronics, logistics, finance and other fields. While Muthiah said these diversifications was in the company's interest at the time. After all, there was more scope to become a conglomerate, and not a fertiliser company, considering the limited prospects in a price controlled regime that fertiliser was mired in. All large businesses did this back then, said Muthiah earlier in an interview.

However, industry representatives have felt that he diversified to unrelated areas, which back-fired later. In some cases, like Henkel the diversification was positive, but diversification through SPIC Petrochemicals, which was supposed to put up a purified terephthalic acid (PTA) plant and a polyester filament yarn (PFY) project at Manali near Chennai and a foray into finance through MCC Finance took a toll on the company's financial position and damaged the image of SPIC and Muthiah. Also, SPIC's growth phase was mostly during AIADMK-rule in the state. However, things took a different turn when rival party DMK came into power in 1989. The DMK government examined SPIC's shareholding in 1990 and declared that the Chidambaram family held far less

## SPIC'S VITAL STATISTICS

Here's a quick look at Spic's rollercoaster financial ride and the composition of its portfolio



than 25 per cent.

Meanwhile, Muthiah had also taken over LCV-maker Standard Motors, after it launched the Standard 2000 car. He put in ₹2 crore of his own money. However, the DMK did not allow him bring in funds from the other joint sector companies. Standard Motors became an election issue for Jayalalithaa-led AIADMK and SPIC's fortunes changed overnight when her party came back to power in 1991. It was allowed to put in ₹6 crore through Tamil Nadu Petro Products.

In 1992, when SPIC went in for a zero-bond issue on a rights basis for ₹42.50 crore, Tidco renounced its rights to participate in this. The SPIC disinvestment case became an election issue for DMK. Jayalalithaa was accused of giving away SPIC to Muthiah virtually for free.

Jayalalithaa's defeat in the 1996 election was a big blow for SPIC. Liberalisation which happened around the same time opened the business to competition, further weakening SPIC. As it is, SPIC's cash reserves were leveraged in investments in other firms, such as Madras Refineries Ltd, Manali Petrochemicals Ltd, Tamil Nadu Petroproducts, and Arochem, all

public sector joint ventures like SPIC. This didn't stop SPIC from plunging into other businesses, such as an entry into detergents through a joint venture with Germany's Henkel as SPIC Fine Chemicals Ltd. The company also invested in unrelated ventures like SPIC electronics, SPIC Pharma (making Penicillin) and biotech. No surprise then, that instead of shoring up on cash reserves, the company had incurred debt of ₹1,200 crore by the late 90s.

The coup de grace for SPIC was the launch of ₹1,500 crore SPIC Petrochemicals, Muthiah's ambitious venture. It was supposed to be a joint venture between SPIC and Chennai Petroleum Corporation, until the Madras High Court ended up issuing a stay order against the project when Muthiah decided instead, to go solo. Now, SPIC Petro was even barred from doing an IPO, and consequently its liabilities from its ₹1,000 crore investment began soaring. To add to its woes, it needed to invest more to convert the existing naphtha-based operations at Tuticorin to gas-based operations. Through a build-up of interest rates and penal interest rates on unpaid loans, SPIC

soon accumulated a debt of ₹2,845 crore owed to a consortium of 30 banks

## Salvaging SPIC

SPIC got a shot at survival when its loans were bought and managed by Arcil in DATE, which has been responsible for selling Spic's assets and investments. After Arcil was through, all that was left of SPIC was the urea and DAP units in Tuticorin and in fact these units were also shut down between 2007 and 2010. Arcil and other lenders have converted part of their debts amounting to ₹57.45 crore into equity as stipulated in the CDR rework package. The latest one to do so was Industrial Investment Bank of India Ltd (IIBI), which will convert its debt, worth ₹60 crore, in SPIC to equity.

Yet, in an impressive turnaround, SPIC has also more recently been able to pay ARCIL and other secured lenders ₹825.55 crore as of March 2011. During this year the company has been able to clear ₹465.55 crore for distribution to secured lenders, according to the company's annual report. As of March 31, 2011, ₹547 crore to unsecured lenders.

## Comeback kid?

With the company on the mend and the bills being paid, Ashwin Muthiah's ambition naturally to restore the luster to the flagship business of the family's, namely fertilisers. The Indian Oil Corporation resuming supply of naphtha to SPIC's Tuticorin plant has been a shot in the arm. Overall, the company is gaining momentum: SPIC reported 238 per cent increase in total income to ₹1,762.47 crore during the year ended March 31, 2011, on the back of full quarter of operations in the Urea plant that commenced operations in mid-October 2010, as compared to ₹522.83 crore in 2009-10. SPIC's profit for the year ended March 31, 2011 was ₹81.98 crore.

Not too shabby for a company that was written off just a few years ago.

RELIANCE

Mutual Fund

Corporate Office: 11th floor & 12th floor, One Indiabulls Centre, Tower 1, Jupiter Mills Compound, 841, Senapati Bapat Marg,