

Publication: The Hindu Business Line  
Date: Sunday, May 25, 2008  
Edition: Chennai  
Page: 15

# You can't be a global player without being in China

Srividhya Sivakumar

**"E**ven though there are talks about capital equipment slowdown, we have not seen it yet," says Mr K. Srinivasan, Managing Director, Carborundum Universal (CUMI). In an interview with *Business Line*, he shares his views on the company's growth plans and strategies.

**Excerpts from the interview:**

**Some of your user industries have reported a slowdown in growth in the recent past. Has CUMI also seen any such slowdown?**

We are fairly diversified in terms of the customers/user industries. Take, for instance, our abrasives business. Here, construction-related businesses would probably be about 15 per cent. It is widely distributed. Consequently, we are not seriously impacted by the slowdown. However, in user industries such as heavy vehicles, tractors, bearings and two-wheelers particularly, there is an obvious slowdown. But both construction and cement are still strong. So, even though there is talk about capital equipment slowdown, we have not seen it yet. The order flow is good. There could be deferment of deliveries, largely because of cash flow issues in India, particularly since the interest rates went up. But our order flows are pretty strong.

**What made you enter the power tools business now? What is the potential market for this business in India?**

We entered the power tools business in October 2007. The potential market for this business is around Rs 1,000 crore and is expected to grow



There is a huge cost arbitrage in our business. There are certain minerals which are cheaper in Russia, China and some parts of Africa. So we have to find ways to be near these resources or countries.

**MR K. SRINIVASAN,  
MANAGING DIRECTOR,  
CARBORUNDUM UNIVERSAL.**

50 per cent each year. Besides the business potential, the decision to move into this business, to an extent, was also defensive. When Bosch came in five years ago, it appointed all CUMI dealers as its dealers, because our dealers were selling only grinding wheels in the market. Then after 2-3 years, when Bosch realised it was not growing as much as it wanted to, it forced these dealers to sell Bosch consumables also. But then we already had a presence in that product. So if the CUMI dealers said no to Bosch's consumables, they had to find another power tools supplier. This made us come into the power tools business. The response so far has been very gratifying.

**What was the strategy behind your having manufacturing units in Russia and China?**

We don't want to be an exporter. We want to be a global manufacturer, because there is a huge cost arbitrage in our business. We are present in Russia because the unit cost of power there is roughly Rs 1.65. It is one-third of what it

costs in India. In Russia we consume about 500 million units of power. The cost arbitrage is about Rs 95 crore. The second one is minerals. There are certain minerals which are cheaper in Russia, China and in some parts of Africa. So we have to find ways to be near these resources or countries.

We are in China because it is the world's biggest market. For some of our products, China accounts for 50-80 per cent of the raw materials required. You cannot be a global player without being in China. But if you ask if China is a very profitable place to run a business, I don't think anybody will make tonnes of money there. But you will run it because you need to get the volumes and scale and also because you can do it without losing money.

**Last year CUMI had acquired majority stake in Russian company Volzhsky Abrasive Works (VAW). How did you decide on that acquisition considering that VAW was not even up for sale then?**

VAW is actually the second

largest producer of silicon carbide in the world. We were scouting for silicon carbide capacity for over four years.

We also needed Pet coke and cheap power. So when we looked around, we realised that VAW was a right fit. But the company was owned by a bank. The bank had done the best it could but the company needed technology and technical ideas and not just money and management. So at that stage, it needed a strategic partner. We then negotiated a good price and bought it for \$40 million, including the working capital.

**What are your plans for VAW? How do you plan to deal with the not-so-good brand image of VAW products?**

When we bought VAW, we thought that the company will make about \$54 million in a year. But our target for 2008 is \$85 million. While this huge growth comes largely because mineral prices have gone up, we have also improved VAW's efficiencies by over 15 per cent. We are giving it new markets and

new technology. VAW has been a reliable but cheap supplier of products. But now we have taken it to the value-for-money product segment. VAW now produces good products and they have the CUMI brand to ride on. We will try to move nearer to a 100 per cent holding. That would give us the opportunity to go for an IPO and use that for further acquisitions or Greenfield projects in Russia.

**CUMI has a significant debt on its books since most of acquisitions and capacity expansions were funded through debt. Are there any plans to reduce the debt burden?**

We spent about Rs 600 crore in the last four years towards capex and various acquisitions. And, yes, it has entirely come out of internal accruals and debt. If you see, almost all our subsidiaries and joint ventures are debt-free and sitting on a pile of cash, while all the debt is on the parent company. This is not good.

We will do some re-arranging of the businesses. Debt must move out of the parent's balance-sheet to provide headroom for further acquisitions and growth. Now as the promoter family has no interest in diluting stake, the funding has to come from Tier II dilution, which is what we are planning. We have a holding company abroad, CIL (CUMI International Limited).

CIL holds VAW. We will eventually get CIL to hold all our international businesses and look at a tier II dilution. Besides, we also have non-core assets of value much higher than our current debt of about Rs 290 crore. We have IT business and land. So, we have quite a bit of surpluses that can be unlocked. We

will find a way to get the debt out of CUMI this year.

**There is a huge unorganised market in this industry. How are you coping with that?**

Imports from China are slowly drying up because prices have gone up. There is a big unorganised segment of spurious goods and other "me too" product manufacturers in the UP belt which are also in trouble. These unorganised sectors sell without paying excise and sales tax. What they were doing illegally can now be done by us legally from Uttaranchal. There is no excise, sales tax is one per cent and there will be no income-tax for the first five years. So there will be no more competitive advantage for them.

**What about competition from bigger players such as Saint Gobain or 3M in the global arena?**

About 15-20 years ago, Saint Gobain thought it could consolidate its presence in this industry. It picked up 97 companies in four years. But eventually it could never put them together. You have to integrate your acquisitions either by shared resource or by shared business practices. But it left all these businesses as separate companies, all of which contribute just 4 per cent of the company's total sales. It is largely a construction materials company, producing glass and plaster boards. The 76 acquisitions made last year were largely in construction-related areas.

3M is the world's second largest abrasives company. Though it is successful and has good margins, it is very difficult to predict what it will do. It is a very good competitor to us, but its presence in India is almost zero.