THE HINDU Business Line

‘We look to grow only around our core'

Swetha Kannan/Vinay Kamath/M. Ramesh

Once you have a base platform, there are lots of peripheral allied activities that go into the same customer base and add value. MR A. VELLAYAN, CHAIRMAN, MURUGAPPA GROUP

Ask Mr A. Vellayan, Chairman of the Murugappa group, if he thinks the group has missed the bus by not entering the power sector, where it has expertise, and he chortles, “Missed the bus going where? If you look at gas-based power projects, the destination is unknown!”

As he adds, where there is undue risk in the value chain and there are uncontrollable variables, “that is not our style,” emphasising the group's cautious approach. In this interview post the announcement of the group's results, Mr Vellayan spoke on a range of issues, from the group's identity revamp to fertiliser policies and land acquisition hurdles. Excerpts: It's been a little under two years since you announced a new brand identity. How has the change worked for the group?

We had a number of individual companies with their own identity, such as TI and Carborundum. The awareness that they all belonged to the same group was not there. So we tried to do that linkage. The first campaign was that these businesses are linked to the Murugappa group. Then we started grouping businesses — Coromandel, Parry, Parry Agro under agri, Chola Finance and Chola MS General Insurance under financial services; then we had engineering services of Tube Investments.

We ensure the group is visible. We reinforce the values, culture, beliefs. Our survey has showed visibility has improved. It has got much more togetherness internally. On May 31, I will be going live across every location of the group (70 locations) — an annual address with a panel taking questions.

Traditionally, the Murugappa group has not been averse to acquiring or shedding companies. So will you look at greenfield opportunities or acquisitions?

Earlier, we had the core business and we were either going forward or backwards. Now, we are looking at growing around the core. For example, we started with vehicle finance, now we have gone into home loans. There is a clear customer base that needs other products.

In the fertiliser sector, we are now selling seeds, pesticides, micronutrients, and farm mechanisation services. Once you have a base platform, there are lots of peripheral allied activities that go into the same customer base and add value. So far, we have grown this way: 70 per cent organic and 30 per cent inorganic. Going forward too, this will stay.

What about entering the banking sector?

We have the basic makings of an organisation which is trusted by customers. We have the capability of dealing in a large branch network. The regulations are still being formulated. It depends on how these regulations pan out and what conditions they carry. The government has not come out with a stated policy…If they spell it out and if the regulations are reasonable, we would like to be there. If it is opened up and industrial groups are eligible, we will apply. Chola will be the natural vehicle to that…but my personal view is that it won't happen till 2014, till after the general elections….

The deregulation expected in fertilisers is not happening. How does it impact you?

In urea, there is a serious situation for the farmer and the industry. Urea price is one-fourth that of DAP today. The farmer is indiscriminately using urea. Therefore it is affecting the yield. It has come down to lower levels. Yields in India are half that of China. Subsidy on urea needs to be reduced. Investment policy needs to be announced. And then the gap between urea and DAP will, on its own, bring about balance. Otherwise, the soil will get bleached over a period of time.

What about the recent cut in subsidies for phosphates and complexes? Is that a cause for concern?

If international prices of raw materials go up, this will further aggravate the gap with urea. So, it is a concern. Right now, international prices have come down. But the rupee has fallen. The first quarter is okay. But going into the second quarter, we have to wait and watch.

What about growth in your engineering business?

We see good growth in the auto sector, especially two-wheelers. The tubes business is largely geared towards the two-wheeler sector. The new plant in the North will also cater to this. It will see strong growth this year. Cars, we have to see, going into the second quarter. With cost push from steel, power and transportation, whether the demand will sustain in the second quarter, we have to see.

Land acquisition has become a huge issue… It wasn't so some time ago. Will it end up pushing project costs and delaying projects?

There are a lot of issues: cost of land, clarity of paper work, environmental clearances, availability of right type of power in that location and the infrastructure. Increasingly, land acquisition is posing a challenge and becoming a barrier to entry in some places.

So far, Murugappa has been in the traditional industries, such as fertiliser, sugar. Are you looking at the emerging new-age industries?

Our only new-age industry is nutraceuticals. We have had some investment in back-office through Laserwords. We sold the company as it didn't suit our DNA.

It is a question of doing what we are good at and comfortable doing. Ultimately, we have to have a value-add.

What about investments in the renewables sector?

On renewables — hydro is a possibility, maybe we have not been investing enough… we had experience we should have done it. We should be looking at it.

On photovoltaic and solar, my worry is how the subsidy will play out. Ultimately, if a model is based on subsidy — whether there will be enough in the kitty to sustain that — will they pull the plug? We have to be careful about this. I would rather bet on businesses where we can stand on our feet based on the competitiveness of our value chain…

Your strategy has been to grow three times' GDP growth. Can you do that this year too?

We are looking to grow in excess of 25 per cent. But we have to see. In most of our businesses, we don't get into situations where we have large outstandings in the market. We will not dump. If there is demand or we can create demand, we will service. We are cautious as some of the signs are not positive: policy, rupee and cost push. Cost push is a big worry this year. Consumer spending in some cities has come down.

What about duty on high-end cycles and cycle parts?

In the long run, this is a good thing. In the short term it will hurt us — for six months. But it is good for the domestic industry. We were importing components (alloy parts and plastic parts) going into cycles — we are now indigenising in a hurry. In the next six months, we should be done. We have built the volumes now, so we can look at local production. Quality can be achieved too. In super-premium cycles, the price rise will be passed on as this market is not price-sensitive.

Any possibility of going back to Myanmar, the land of your origins?

We were uprooted from there. We lost it all. We don't have a good reason to go there. There is no clarity on investments, protection of ownership rights and land ownership. Everything is negotiable. Our teams have visited Myanmar, Cambodia and Laos to understand if rubber can be grown there profitably. It is a far cry now.

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