SHIFTING FOCUS

Kesoram Industries puts all expansion plans on hold

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KOLKATA

The B.K. Birla group-controlled **Kesoram Industries Ltd** has put all expansion plans on hold to focus on turning around current operations, even as it continues to make losses.

It recently abandoned a plan to expand its tyre manufacturing capacity, holding back investments of at least ₹400 crore, even as it obtained shareholders' approval on Wednesday to raise the threshold on borrowing from ₹4,000 crore to ₹6,000 crore.

A year ago, the company stalled expansion of its other key business division—cement—in view of unfavourable market conditions, delaying a proposed ₹1,200 crore investment into a 2.5 million tonnes (mt) plant in Karnataka.

Many proposed cement factories in southern India have been put on hold because of a demand-supply mismatch and slowing investments in the infrastructure sector, according to Ravi Sodah, a research analyst at the Indian arm of **Elara Capital Plc.**

Kesoram produces 7.5 mt of cement a year at its factories that are running at a capacity comparable with current industry standards, according to the management.

The company's "first priority" is to turn around its existing operations, said Arvind Singh, chief executive officer of **Birla Tyres.**

The company lost money for six consecutive quarters till December 2011. In the last quarter of fiscal 2012, it made a small profit, yet ended the year with a cash loss of ₹82 crore, despite a tax credit of ₹330.5 crore, on a consolidated revenue of ₹6,005 crore.

Analysts have said that margins were under pressure for tyre companies in India over the past two years because of hardening rubber prices, and many manufacturers are now looking to secure rubber plantations, both within and outside India.

The company had originally proposed to ramp up the manufacturing capacity of its Balasore tyre factory at an investment of ₹750 crore. After investing ₹350 crore on the facility, it is "reassessing" the need to pump in more money, according to Singh.

Kesoram had earlier planned to manufacture passenger car radials at Balasore. It currently produces radials for heavy vehicles and two- and three-wheelers.

The tyre division, which is running at 70-75% of its installed capacity, is largely responsible for the company's woes. Operating losses from the segment were at ₹428 crore and ₹15 crore, respectively, in the last two years, largely on account of Kesoram's inability to cope with fluctuating rubber prices, according to company secretary Gautam Ganguli.

Consulting firm **McKinsey and Co.** was tasked with devising a turnaround strategy more than a year ago. According to the tyre division's head Singh, McKinsey's "immediate mandate" had ended in May. "We are in the process of implementing some of McKinsey's advice on improving efficiencies," he said.

Alongside, the company could also consider carving out its closed spun pipe and heavy chemicals business, according to Ganguli. He refused to disclose any further details.

Shares of Kesoram closed 3.38% up at ₹150 each on BSE on a day when the exchange's benchmark index fell 0.73%.