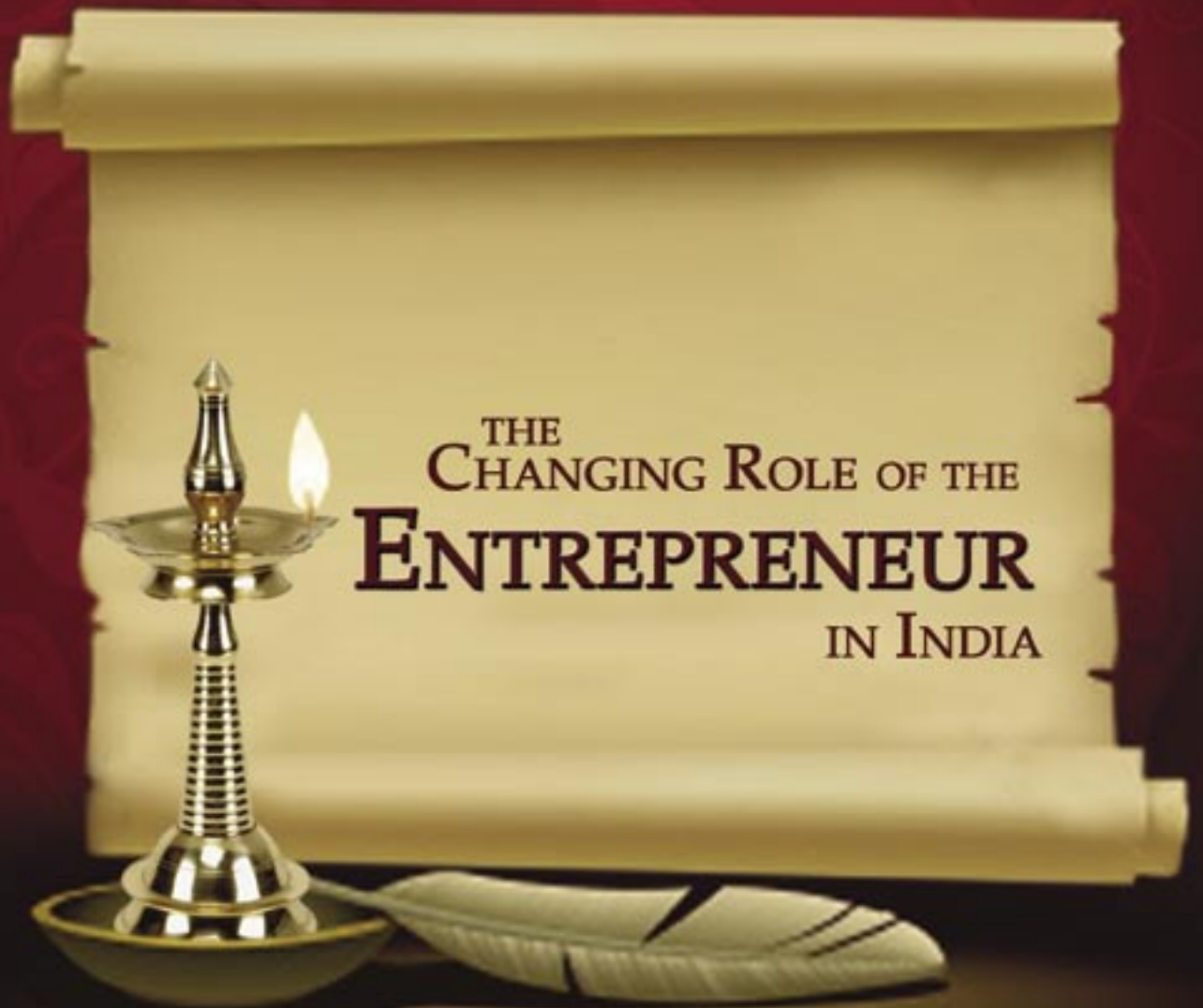


# MATRIX

July 2009

A PUBLICATION OF THE SANMAR GROUP



THE  
CHANGING ROLE OF THE  
**ENTREPRENEUR**  
IN INDIA

# Sanmar Holdings Limited

## Sanmar Chemicals Corporation

### Chemplast Sanmar Limited

- Trubore Piping Systems

### TCI Sanmar Chemicals LLC (Egypt)

## Sanmar Metals Corporation

### Sanmar Foundries Limited

- Sand Foundry
- Investment Foundry
- Machine Shop

### Matrix Metals LLC

- Keokuk Steel Castings Company (USA)
- Richmond Foundry Company (USA)
- Acerlan Foundry (Mexico)
- NEPCO International (USA)

### Sanmar Ferrotech Limited

### Eisenwerk Erla GmbH (Germany)

## Sanmar Engineering Corporation

### BS&B Safety Systems (India) Limited

### Flowserve Sanmar Limited

### Sanmar Engineering Services Limited

### Fisher Sanmar Limited

- Control Valves Divn.
- Regulators Divn.

### Tyco Sanmar Limited

### Xomox Sanmar Limited

- Xomox Valves Divn.
- Pacific Valves Divn.

## Sanmar Speciality Chemicals Limited

- ProCitius Research
- Performance Chemicals
- Bangalore Genei

### Cabot Sanmar Limited

## Sanmar Shipping Limited



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N Sankar's lecture on entrepreneurship at the Madras Management Association elaborated the changing role of the Indian entrepreneur, cascading down from the early days to present times. Classifying an entrepreneur's role into four stages - Identification, Organisation, Management and Sustenance of the Enterprise, the lecture caricatured the evolution of entrepreneurship with particular reference to South India.

*Matrix presents a gist of the lecture.*



THE  
CHANGING ROLE OF THE  
**ENTREPRENEUR**  
IN INDIA



*Taj Mahal Hotel, Bombay*

## The closing days of the 19th Century

In the last quarter of the 19th century, India made a convincing leap forward into modern industries. The main examples of Indian investment were in Cotton mills in Bombay and Ahmedabad, and in Jute mills in the Eastern region.

Another striking example was the setting up of the Taj Mahal Hotel in Bombay by the Tatas.

In South India, Indian entrepreneurship at that time was by and large restricted to small hometown businesses, serving

the needs of the local community. Most of the larger businesses were owned and controlled by the British and other international corporations. Indian businessmen at best marketed or dealt in these products.

## The 20th Century – First decades



*Parry & Co*

The early days of the 20th century saw a gradual increase in industrial investment by Indian businessmen. Indian investments now expanded into new lines such as sugar, paper, starch, shipping, engineering, chemicals and many others, including air transport.

In 1936, with an initiative by the Tatas, several Indian firms merged to form The Associated Cement Companies. The 30s also saw the emergence of the Kirloskars around Pune in the engineering industry, and the Shriram Group's DCM

in the north, primarily in textiles, but also in sugar, engineering etc.

In the South the business families hitherto engaged in traditional business activities, ventured into industry. The textile mills of Coimbatore, the sugar industry, newspaper publishing etc., had their beginnings at this time. Native banking was an area where communities like the Chettiars and others flourished, and many of them spread their wings offshore to Ceylon, Malaya, Burma, etc., to carry on this activity.

Identification of the opportunity rose from their own abilities to choose and evaluate a business. However, in most cases the activity taken up would have been an extension of their own current family business. As for Organisation of the activity goes, the raising of resources, came from the entrepreneur's own family savings, and what he could convince others to co-invest with him. The entrepreneur handled the business management and of course, the finances. Any sustenance required for the business again drew on family resources.



*India Cements Ltd*

## Early days of Independent India

The natural Indian entrepreneurial drive, which had so far been bottled up under foreign rule, burst forth and the Indian landscape was strewn with a number of ventures, which proudly bore Indian

names. In the South, the late 40s and the 50s, saw the take off of many of the industrial houses that grew to prominence thereafter. TVS, Tube Investments, India Cements, Indian Overseas Bank, Indian

Bank, United India Insurance, the Easun Group, the textile groups of Coimbatore like the Premier Mills, Madura Mills etc. Identification of opportunities finally began to be driven by an estimation of

future potential. Investments went into areas like spinning and weaving mills, cement, building accessories, electrical accessories, fans, and so on. Jawaharlal Nehru's call for industrialisation brought with it the need for huge expansion in infrastructure, and in materials and equipment required for infrastructure such as electrical equipment, trucks, cables, steel and AC pipes, etc. Availability of money was a little better organised with Development Financial Institutions like the Industrial Finance Corporation and many banks being willing to fund industry. Most large factories at that time had a colony attached to them, and in effect the businesses ran little townships of their own. Organisational ability was thus crucial for success in this period.

Management became slightly easier in this period, with availability of a large number of educated young Indians looking for work, and being willing to consider the private sector. Sustenance of the enterprise was not too much of a problem – demand for almost anything was huge, and there

were very few businesses at that time, which did not succeed financially. The other distinguishing feature of these businesses in the early 50s was that many of them were truly pan-Indian and not just regional players. The products were marketed all over the country.

To pick an example in Southern India, my own grandfather, S N N Sankaralinga Iyer was primarily involved in native banking till the 40s. The business grew from a small money lending operation to one with many locations, including a branch in Colombo. He then took a huge entrepreneurial step by starting a scheduled bank – the Indo-Commercial Bank, which along with the Indian Bank and the Indian Overseas Bank was, among the largest South Indian banks. As for organising, business was conducted through trusted people who were sent to man the different locations. Management - The primary business strategy was laid down by him as the Managing Director. He determined the parties to whom the bank would lend, the margins they would operate on and so on. But like many others

at that time, he was perhaps caught up in the heady excitement of establishing new industries, and did not pay enough attention to sustenance, with the result that the bank had to merge with a larger bank.

Another entrepreneurial vision that my grandfather had in the 40s was that of organised farming, and he actually set up a joint stock company for farming. That venture failed, but he discovered on those lands large quantities of limestone, which then formed the basis for his next entrepreneurial step – setting up of India Cements Limited in the late 40s.

To pick another industry, the Electrical industry, Mr Eswaran started in the servicing and distribution side of the business, and from these, with vision, he identified the huge opportunity in the growth of the Electrical Infrastructure of the country, and invested into the hardware side of the business – in transformers, switchgears, electrical controls and so on. There are many other shining examples in a variety of industries, ranging from chemicals to textiles, cycles and so on.



*R Venkataraman with K S Narayanan, The Sanmar Group*

## The 50s and 60s

The latter half of the 50s saw the emergence in full measure of Nehruvian Socialism with all its implications for business and industry. Industrial Licensing spread its constricting tentacles in all directions. Identification of opportunity was in the main not driven by any study. Demand for most products was exploding. Supply was curtailed on

the one hand because of the Industrial Licensing system, and on the other by infrastructural shortcomings.

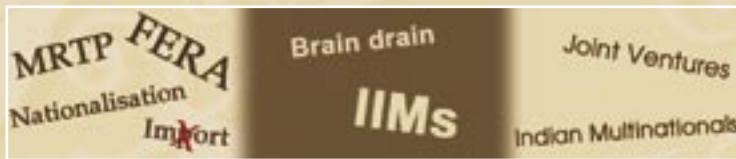
Organising the business - Most of the public issues at that time failed, but a whole slew of government financial institutions – LIC, IDBI, IFC, ICICI UTUI supported these issues with underwriting, and also advanced them

loans. The primary organisational function of the entrepreneur was keeping the 'powers that be' happy. Management per se did not receive its due share of importance. Again the critical job of the managers was to interact with various regulatory authorities at different levels to ensure the continued functioning of the enterprise. Sustenance of the enterprise involved more of the same.

Moving on from the 60s, I cannot but mention the extremely supportive industrial climate in the then Madras State engendered by that visionary

Industries Minister R Venkataraman fully supported by Chief Minister Kamaraj. It was a true partnership between the Government and the private

sector, which worked jointly to overcome obstacles in the path of industrial development.



## The 70s

The 70s saw further deterioration of the industrial and business climate. Nationalisation of Insurance, Banks, the introduction of the dreaded MRTTP Act to curb the growth of large industrial houses, FERA and its draconian provisions and the restrictive import regime were obstacles for the entrepreneur to grapple with. However many good trends started and strengthened in this period. A number of international firms entered India in joint venture with Indian corporations. The multinationals in India like Hindustan Lever and ITC which were professionally managed also kept abreast of developments in management science in the rest of the world. The Indian

Institutes of Management at Ahmedabad and Calcutta, and subsequently in other locations, became primary hunting grounds for management talent. Of course, this decade also saw the beginning and escalation of the Brain Drain.

We thus had a curious mix in India, the traditional Indian business houses, large multi-nationals, and new ventures promoted and manned by the younger scions of Indian business. Increasing regulations, foreign exchange controls, limitations on management salaries etc., curbs on inculcation of new technology with appropriate royalty payments, etc., led to many of the longer standing multinationals exiting India, and this

opened up another opportunity for quick thinking Indian entrepreneurs, who got into deals to acquire the controlling interest held by these multinationals in their Indian ventures. Groups like the RPG Group of Calcutta, the Murugappas here in Chennai, the Singhanias, the Birlas and many others made very profitable and progressive acquisitions in different fields.

One such Southern group which was quick to seize upon the opportunity at that time was the Amalgamations Group where the dynamic Late Shri Anantharamakrishnan took over Simpsons and other companies of the group and grew them significantly.

## The 80s



*Dhirubhai Ambani and the Reliance Empire*

The mid 80s saw a glimmer of hope for liberalisation of the Indian economy. The large IMF loans that India had to seek brought along with them 'Conditionalities' which primarily argued for a lessening of controls and opening up of the economy. One of the first beneficiaries of this was the cement industry where the longstanding price controls that had inhibited its growth, were gradually relaxed, leading to sharp

expansion. Corporate India generally increased its clamour for liberalisation of controls, but at the same time was fearful of competing with the world in an open arena.

The 80s of course still rewarded those that could work their way in the controlled regime and towards the end of this dark period of controls, there emerged the most successful of them all, Dhirubhai Ambani of Reliance. Without question

he was the best player of all time in the over regulated Indian economy.

He introduced the best practices in project management into India - the Reliance mega projects were set up in a way that global corporations envied. The industries he established were the best able to transit to the open economy of the 90s. He almost single handedly rejuvenated the equity cult in India.



*Dr Manmohan Singh, architect of liberalisation*

Then came 1991 and the foreign exchange crisis that led to India having to literally sell the family jewels – in this case its Gold reserves. Desperate times called for desperate measures. With some not so gentle pressure from the International Monetary Institutions, Prime Minister Narasimha Rao and Finance Minister Manmohan Singh, crafted and implemented a series of reforms targeted towards opening up the Indian economy. In a space of just a few months Industrial Licensing was abolished, Foreign Exchange controls were significantly liberalised, import restrictions were slashed, foreign investment was welcomed, and India actively sought the influx of foreign investors. Almost instantaneously the Indian businessmen faced competition from the latest and best products overseas. His process and products had

## The 90s - Liberalisation

to become competitive on a global scale, quality-wise and cost-wise. With foreign investment liberalised, international corporates with deep pockets went on the acquisition trail in India.

To the entrepreneur, the correct identification of an opportunity became a crucial win or lose decision. He faced a typical open market economy. As for organisation choice of location was now free and not dictated by an Industrial License. However the newer generation of educated Indian professionals were far more picky. Industry locations were increasingly dictated by such factors. Financial resources were far more easily available. The equity markets were buoyant, fuelled by both domestic and international money, and the banks and institutions, although more market driven, were still there to support.

However, the providers of both equity and loan resources, were far more demanding. The days of taking them for granted were behind the entrepreneur. Coming to the aspect of management on an ongoing basis, there was now a large pool of executive talent available. But retention became a big issue. Continuous infusion and development of management talent became a requirement for the Indian entrepreneur. The widespread use of computers, and the latest processes and techniques, were increasingly becoming a necessity. Sustenance of the businesses was important, but could be handled objectively. There were now developed and responsive markets for the critical resources of men, money and materials, and with the development of the internet, global sourcing was as easy, if not easier, than domestic sourcing.

## Early 21st Century



*IT Park in Chennai - TIDEL PARK*

The other phenomenon of this period, the late 90s and the early 21st century, was the huge impact on the Indian economy of industries that did not exist a couple of years ago. Software development and Business Process

Outsourcing became major parts of the Indian business scene, and its main success stories. The Indian economy was truly free, and robust enough that it was not afflicted by the virus that hit the rest of the Asian economy towards the end

of the 20th century or by the downturn sparked off by the DotCom bust. This set the stage for the next phase of Indian entrepreneurial development.



*Sanmar's acquisition in Germany, USA & Egypt*

## 2005 – India abroad

Half way into the first decade of the 21st century, Indian entrepreneurs began to spread their wings abroad. Indian entrepreneurs of all sizes and backgrounds were quick to identify opportunities in their respective areas. In most cases, these involved superimposing lower Indian costs on distribution channels acquired internationally. Organisation involved intricate financial arrangements to secure

the fairly significant resources required; and then putting in place key personnel to secure the entrepreneur's control of the acquired entities. There were many doomsayers who predicted that management of these entities acquired in far-flung locations would be beyond the capabilities of the Indian acquirers, but they have so far been proved wrong. By and large, the Indian Entrepreneur

has followed a model of locating just a couple of senior managers at the top of the acquired entities, and adopting a system of integrating and identifying with the local management for the rest. This technique seems to have worked smoothly in most cases.

Thus in the space of few years we had the Indian flag flying at businesses all around the globe, and quite successfully too.

## Present Day



The shake-up in the financial markets has put enormous strain on the financial arrangements for the huge acquisitions made by Indian entrepreneurs in the last couple of years. Over different periods in the 20th century, there was much emphasis on identification, organisation

and development. But sustenance was somehow always not as critical as the rest. But today things are very different. How the entrepreneur sustains the enterprises he has acquired in the last few years is the most important issue.

I for one am confident that as we look back at this period some years down the road, we will be pointing to it as another shining example of how the Indian entrepreneurial spirit faced seemingly insurmountable difficulties, but still came through successfully.



## Entrepreneurship

In these difficult times, we need Entrepreneurs more than ever before. Everyone is talking about recession and sitting tight waiting for a revival. Who or what will make the revival happen? It has to be the Entrepreneur. In downturns, new opportunities are created, and a new

economic order would emerge. It is at times like these, that Entrepreneurs are created. There are always those who at such times heed the whispering voice of society's needs, pick up opportunities that are hidden to most of us, and have the appetite for risk that exploiting

these opportunities involves. With a little bit of luck, a successful new Entrepreneur is born.



# The K Eswaran Endowment Memorial Lecture

19 June 2009



*The K Eswaran Endowment Memorial Lecture on Entrepreneurship is an annual event conducted under the aegis of the Madras Management Association (MMA). The lecture is in memory of the late K Eswaran, South India's leading entrepreneur and founder of the Easun Group of Companies. The K Eswaran lecture identifies people who have contributed as entrepreneurs, promotes the spirit of entrepreneurship and provides a platform to share knowledge.*

*The second K Eswaran Endowment Memorial Lecture was delivered by N Sankar, Chairman of The Sanmar Group. The Sanmar Group is among the pioneering industrial houses in South India.*



*Sarada Jagan, committee member (MMA) & grand daughter of Shri K Eswaran, delivering the welcome address.*



*Hari Eswaran chaired the session, while the lecture was delivered by N Sankar, The Sanmar Group.*

Chemplast Sanmar Celebrates

## World Environment Day

### Cuddalore

World Environment Day was celebrated at Cuddalore's swanking new facility. The Greenfield PVC facility that is already in the process of greening and landscaping the area commemorated it by planting 200 saplings around the premises.

District Environmental Engineer (DEE) P Asokan presided over the formal celebration with about 100 employees and administered the Environment Day pledge.



## Karaikal

For Chemplast Sanmar's Karaikal facility, this is an annual commitment. The employees gathered on this day and planted about 65 saplings to 'green' the area. Incidentally, the Karaikal facility has been a regular winner of the FarmFest awards for its horticulture and well-tended industrial garden.



## The Eisenwerk Cup 2009

# Team DISA Pulls off a Hat Trick

The Soccer Championship for the “Eisenwerk-Cup 2009” took place on 13 June 2009 at the Breitenbrunn indoor stadium. This championship is taking place for the third consecutive year.

A total of seven teams took part in the Championship of which six teams were from the Eisenwerk Erla: GFD, DISA, Kernmacherei 1, Kernmacherei 2, Verwaltung, Qualität and the guest team, SV Eisen Erla-Crandorf. Team DISA and Qualität made it to the finals. In a nail biting finish team “DISA” won with 2:1 and received the Challenge Cup for the third time, to retain the trophy.

The soccer games were more of a fun event - employees, players and spectators had fun and are already looking forward

to the 2010 championship! Will DISA do the magic again?

### Team DISA erzielt einen Hat trick

Die Fußballmeisterschaft um den “Eisenwerk-Cup 2009” fand am 13. Juni 2009 in der Sporthalle in Breitenbrunn bereits zum 3. Mal statt.

Insgesamt nahmen 7 Mannschaften teil, 6 Mannschaften waren vom Eisenwerk Erla: GFD, DISA, Kernmacherei 1, Kernmacherei 2, Verwaltung, Qualität sowie eine Gastmannschaft die SV Eisen Erla-Crandorf. Team DISA und Qualität haben es bis ins Finale geschafft. In dem spannungsgeladenen Endspiel gewann Team DISA mit 2:1 und holte sich zum

3. Mal den Wanderpokal und behält nun die Trophäe.

Die Fußballspiele waren mehr ein “Fun event”, die Mitarbeiter, Spieler und Zuschauer hatten viel Spaß und freuen sich schon auf die nächste Meisterschaft im Jahr 2010! Wird DISA noch einmal zaubern können?



*From left top: Mr André Kieser, Mr Mike Knietzsch*

*From left bottom: Mr Markus Schulz, Mr Jan Müller, Mr Alexander Graf, Mr Sebastian Rein, Mr Thorsten Rein*

## Sanmarite Alagappan submits his father's works for national consumption

### The Rhyme and Reason

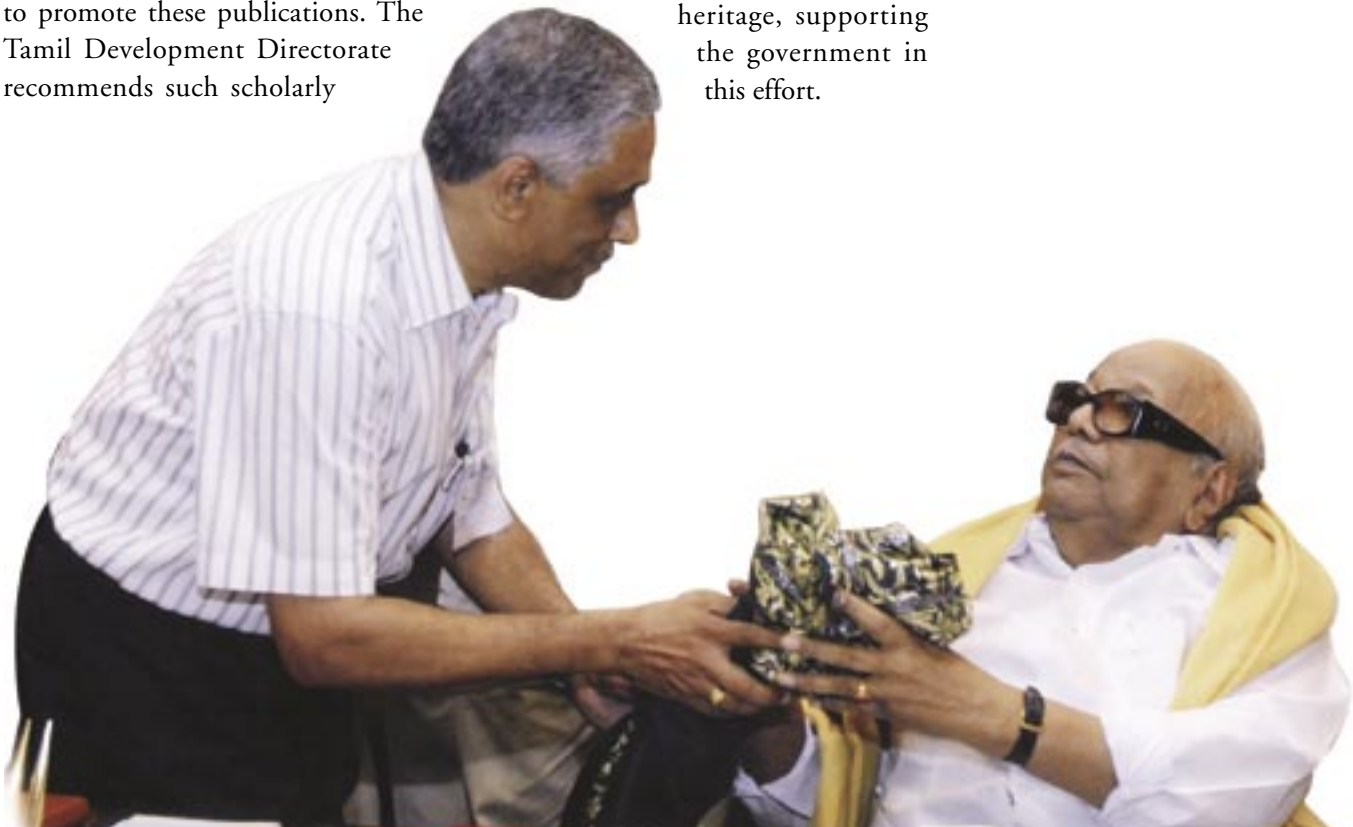
Sanmarite, V Alagappan of Sanmar Engineering Corporation, is a happy man these days. His father's work of a lifetime is getting the due recognition it deserves. The works of Tamil children's poet, Ala Valliappa (Alagappan's father) among select Tamil literary scholars, came under the umbrella of the Tamil Nadu government's current year's initiative to preserve and propagate Tamil literature and the contribution by Tamil scholars.

Alagappan and his sisters, the legal heirs to their father's literary works, gave their consent to the Tamil Nadu government to nationalise them, thereby opening the doorway for a wider audience to benefit from the scholar's works. Until now, the poems were published by the family and its reach was limited to the extent of the family's capability to promote these publications. The Tamil Development Directorate recommends such scholarly

works for nationalisation, publishes and distributes them across wider markets. With the nationalisation, Ala Valliappa's works will be available across platforms from print media to the web and people will be able to access them at low cost. Valliappa's poems are also part of the Singapore Government's curriculum, where Tamil is one of the national languages.

Hon'ble Chief Minister, M Karunanidhi is himself a renowned poet, playwright and elocutionist. His and the government's efforts to promote Tamil literature is a positive step in the preservation and encouragement of contemporary literature. Alagappan and his siblings, with their consent for the nationalisation have indeed contributed to the cause of promoting Tamil heritage, supporting the government in this effort.

*Ala Valliappa, a well known children's poet in Tamil, has authored more than 50 books.*



*V Alagappan presenting a shawl to the Honourable Chief Minister.*

## Sanmar Greets the Deputy Chief Minister

Vijay Sankar, Deputy Chairman, The Sanmar Group, called on Mr M K Stalin the Deputy Chief Minister of the Tamil Nadu Government. The senior management team that visited Mr M K Stalin included P S Jayaraman, Chairman, Sanmar Chemicals Corporation. Vijay Sankar presented Mr Stalin with a shawl and wished him on his appointment as the the Deputy Chief Minister.

*Greeting the Deputy Chief Minister: P S Jayaraman (left), Mr M K Stalin (centre) and Vijay Sankar (right).*



## TCI Sanmar meets with H E Governor Mostafa Abd El Lateef

The senior management team of TCI Sanmar had a meeting with His Excellency General Mostafa Abd El Lateef, the Hon'ble Governor of Port Said on 26 June 2009 in his office to apprise him of the company's new projects and its progress.

*Left to right: J K Menon, P S Jayaraman, H E Governor of Port Said General Mostafa Abd El Lateef, R Kalidas and Mostafa M Saad.*



## TCI Sanmar's Project Finance Close

In the midst of one of the worst financial crises since the Great Depression, TCI Sanmar, was able to achieve a 12-year project finance to the tune of US \$ 635 million. The company has embarked on ambitious expansion plans for the manufacture of VCM and PVC at Port Said, Egypt. The successful financial close of project financing for this project was a marathon feat for the Group. PFI, an international magazine on project financing, carried a special feature on the trials and tribulations that culminated in success. The article is reproduced here with permission from PFI.



Major banks (primarily Indian) that provided the project financing.



## Bankers Visit TCI Sanmar Project Site



*R Kalidas addressing the visitors.*



*TCI Sanmar main building.*



*TCI Sanmar's VCM project.*



*A tour of the project site.*



REUTERS PROJECT FINANCE INTERNATIONAL

# pfi

PROJECT FINANCE INTERNATIONAL  
20 May 2009/Issue 409/<http://www.pfie.com>

PLUS  
Middle  
East  
Report

Americas

## Chile mines PF gold Santa Rita mine funded

Asia Pacific

## MKIF securitises PNOC-EC has big plans

EMEA

## Thermaiki in a hole China backs Morupule B

Features

## The Sanmar success Where the sun shines

# The Sanmar success

**A** legend in the book of Ramayana says that, in ancient times, Ganga, the daughter of the King of Snows, known for her independent and capricious nature, incarnated as the Ganga river, lived in the celestial regions. This divine river (known today as the Ganges) had its source in Vishnu's big toe and from there flowed forth to water the different paradises, bestowing on them richness and fertility.

King Bhagiratha, who was a great sage, was determined to bring about the descent of the Ganges upon earth. To do so, he sought to invoke Lord Shiva. Arms raised above his head, hands joined, pressing the earth firmly with his right foot, his left leg folded on his right thigh, in perfect equilibrium, straight as a tree rising skyward, he remained standing for one thousand years. Then Shiva was pleased and allowed Ganga to plunge down to earth.

No other legend better exemplifies how ambitious goals can be reached through perseverance, patience and determination, and while the Sanmar industrial group, based in Chennai, India, did not have to wait a thousand years to attain its goal, it had to harness all its skills to achieve financial close in respect of a US\$635m 12-year project finance, in the midst of one of the worst ever financial crises.

## The project

The Sanmar group is a leading family-owned South Indian conglomerate that has been active for more than 30 years in the chemicals and engineering businesses, with a particular focus on PVC and chlorochemicals. In 2006, Sanmar became aware that a new caustic soda plant (TCl Chemicals) was for sale in Port Said, Egypt. It was quick to identify this potential acquisition as a unique opportunity that would allow it to expand its PVC business, both in India and overseas.

How Ancient Indian culture can provide an inspiration for today. An article written by **Laurent Devin, Othmane Alaoui and Anne Desdoigts of BNP Paribas; Jason Kerr, Ben Raynor and Matthew Wood of White & Case.**

All the ingredients for a major expansion were present at the plant: 79 acres of land were available; the plant was located strategically, being only 4km from the Port of Suez; there was an existing workforce available on site, caustic soda operations were up and running using state of the art Asahi Kasei technology and generating a consistent flow of revenues; electricity was available at far more competitive rates than in India; salt farms were located nearby; and, critically, there was a growing demand for PVC in the region. More than anything else, Sanmar saw an opportunity to integrate this asset with its industrial network in India where it was already a major PVC producer.

Sanmar decided to progress with the acquisition of the plant, which it concluded in March 2007 supported by its relationship bank ICICI, which assisted in the financing of the acquisition by providing Sanmar with a US\$300m two-year bridge loan. Soon after the acquisition, the acquired company's name was changed to TCl Sanmar.

An expansion programme was developed with a view to increasing caustic soda output to 275,000 tonnes per annum and using the chlorine byproduct to feed an ethylene dichloride (EDC) unit, as well as three vinyl chloride monomer (VCM) units and one polyvinyl chloride (PVC) unit. In total, the project is expected to produce 400,000 tonnes per annum of VCM from its three VCM units. Half of the VCM produced will be shipped to Cuddalore on the east coast of India, where it will be used as feedstock for Sanmar's new PVC plant. The other half of the VCM produced will be used to feed the PVC unit in Port Said.

The project is, therefore, a rare example of a fully integrated NaOH/EDC/VCM/PVC plant, which is self-sufficient save for the supply of ethylene, 185,000 tonnes per annum of which will be imported, predominantly from the Gulf region. Long-term contracts are not commonly available for the supply of ethylene. However, it is

# TCL Sanmar

Most of Sanmar's engineers have between 15 and 30 years of experience in the chlorine industry.

believed that there is sufficient float on the ethylene trading market to ensure that there will be a reliable supply, especially given the ethylene surplus that is likely to emerge (as a consequence of the large capacities due to come to the market in the next two to three years).

Unlike conventional projects, Sanmar's expansion strategy combines the construction of new build plants (the EDC unit and one VCM unit) with the refurbishment of second-hand plants (two VCM units from BASF and Ineos and the PVC unit from BASF). With Sanmar's successful track record of dismantling and re-erecting mothballed plants in India, the company was confident that it would be able to reduce project costs substantially by implementing a strategy utilising second-hand plants, without impairing the reliability or productivity of the project. At the time this article went to press, the refurbishment of some of the units was already close to completion.

In addition, most of Sanmar's engineers have between 15 and 30 years of experience in the chlorine industry and are renowned for their expertise. Therefore, while certain aspects of the project were awarded on a lump-sum turnkey basis (such as the utilities and pipelines, to Technip), Sanmar has significant resources to manage the project itself and is largely in control of construction activities.

Sanmar also displayed the ability to negotiate successfully with a number of well known suppliers in India, which meant that the total project costs remained within the original budget of US\$868m. While such project costs were initially financed with equity, Sanmar was aware that soon after the acquisition of the project in Egypt it would have to address and resolve the issue of refinancing the ICICI bridge loan (and two other bridge loans provided by Bank of India and Indian Overseas Bank) as well as the financing of the project expansion itself.

### The approach to the financing

After exploring a project finance approach with BNP Paribas and a capital markets route with Bear Stearns, Sanmar decided, in February 2007, to seek to raise financing on the capital markets, which, on the face of it, was an attractive proposition at the time. However, when Bear Stearns became the first victim of the sub-prime crisis in July 2007, Sanmar was compelled to reconsider the project finance route and approached BNP Paribas to reopen discussions.

Once it was decided that funds would be raised through project finance, BNP Paribas, in its role as structuring bank, worked hard to complete thorough due diligence on the project, appointed lenders' consultants (Jacobs Consultancy, ERM Paris, CMAI and Miller Insurance), and worked with White & Case to prepare a detailed term sheet on the basis of a 12-year financing with a 70:30 debt

to equity ratio and limited completion support from Sanmar. By December 2007, BNP Paribas was in a position to circulate an information memorandum to a selection of international banks.

However, at that point the financial crisis was taking its toll and, together with other factors such as the perception of increased Egyptian political risk (in particular, after the difficulties faced by the EAgrium project), the unconventional nature of certain aspects of the Sanmar project financing and Sanmar lacking an international profile, syndication within the international banking community became challenging.

It was at this point that Sanmar turned to its relationship banks. A group of 10 Indian banks emerged with State Bank of India (which took the roles of facility agent, offshore account bank, offshore security agent and intercreditor agent), ICICI Bank, Bank of India, Indian Overseas Bank, Axis Bank, Bank of Baroda, Export-Import Bank of India, Indian Bank, Syndicate Bank and Union Bank of India. In addition, on the Egyptian side, Arab African International Bank (which took the roles of onshore account bank and onshore security agent), showed strong support for the project with a US\$70m commitment for a working capital facility.

The road was then paved for BNP Paribas and White & Case to develop the financing and security documents, while BNP Paribas continued its extensive due diligence on the project, closely monitoring the progress of construction, in conjunction with Jacobs Consultancy. BNP Paribas and White & Case worked in concert with Sharkawy & Sarhan in Cairo (Egyptian counsel to the lenders) together with Allen & Overy (international counsel to Sanmar) and DLA (Egyptian counsel to Sanmar) to produce a suite of documentation that would be acceptable to the Indian syndicate and Arab African International Bank.

### From Mumbai to Chennai to financial close

Following preparation of the initial drafts of principal financing documents, an all-parties meeting was called, to take place in Mumbai and to be attended by Sanmar and each of the banks and their respective legal counsels, with the aim of negotiating and finalising the documentation as quickly as possible. In this way, in mid-September 2008, Sanmar and BNP Paribas, together with a multitude of bankers from the Indian bank syndicate, Arab African International Bank and teams from each of White & Case and Allen & Overy, descended upon the Taj President Hotel in Mumbai.

Concurrent with the negotiation of the senior project finance facility to be provided by the Indian bank syndicate and the working capital facility to be made available by Arab African International Bank, a US\$80m subordinated debt facility was also negotiated in Mumbai. This facility was provided by four members of the Indi-

# It was at this point that Sanmar turned to its relationship banks

an bank syndicate, which took on a dual capacity as subordinated lenders and were represented separately by a different team at White & Case, using a "Chinese wall" where appropriate. Treated for the purposes of the transaction as quasi-equity, this facility was designed as a top-up for the financing of project costs.

In addition, following discussions between Sanmar and Arab African International Bank, it was agreed that flexibility would be built into the working capital facility (which may be drawn in US dollars or Egyptian pounds), to allow an increase in the facility of up to US\$30m where, among other things, Arab African International Bank enters into one or more participation agreements with third-party lenders. The working capital facility is also designed to allow a portion to be utilised to issue documentary credits in favour of Sanmar's suppliers.

The meetings in Mumbai were a great success, despite the fact that the Indian bank syndicate had only had a limited opportunity to review and comment on the documentation and some members of which had little prior experience of project finance transactions of this magnitude. Over the course of the week, the majority of all open issues had been negotiated and agreed, allowing for the lawyers from White & Case and Allen & Overy to prepare final drafts of the key financing documents, to reflect the commercial agreements reached during the Mumbai meetings.

In the weeks that followed, several calls then ensued between London, Bahrain, Cairo, Singapore, Mumbai and Chennai to address the remaining open issues. Credit is due to all parties for their constructive approach in facing all remaining concerns head-on, which allowed near final drafts to be posted to the Intralinks deal website during October 2008.

In liaison with the lender group, State Bank of India, as facility agent, quickly set about conducting a thorough review of the documentation, to achieve a timely closing of the financing. However, despite the will of the parties to achieve closing before the end of 2008, discussions with the notary in Port Said (in relation to registration of Egyptian security) and delays in the obtaining of certain project licences in Egypt, held things back. Undeterred, Sanmar, DLA and Sharkawy & Sarhan worked hard to engage with the notary and with local Egyptian officials to resolve these issues. Many meetings were held with various representatives from the Egyptian authorities in order to facilitate this. Through a combination of the determination of Sanmar and the co-operation shown by the Egyptian authorities, Sanmar found itself in a position to approach closing during March 2009.

As it had been necessary to facilitate the repayment of Sanmar's bridge lenders and the release of the bridge lenders' security at the same time that funds were to be released to Sanmar, following the Mumbai meetings an escrow mechanism was introduced to the documentation.

This mechanism effected a notional conversion of each bridge lender's outstanding bridge loan into a project loan, while requiring certain bridge and other lenders in the syndicate, together with the subordinated lenders, to deposit money into escrow.

Accordingly, upon the majority of conditions precedent having been satisfied "electronically" on March 23, monies were deposited into escrow. The remainder of conditions precedent were then satisfied at the closing meeting on March 30, which was held at Sanmar's offices in Chennai and attended by State Bank of India, as facility agent, ICICI Bank and Axis Bank (which were present to oversee the release of the security relating to their bridge loans). Close to the end of the Chennai business day of March 30, State Bank of India, as facility agent, confirmed that financial close had occurred, just in time for an instruction to be given to the escrow agent in London to release monies from escrow to Sanmar.

## Security and completion support

The lenders' security package resembles a relatively traditional project financing, comprising both onshore and offshore elements and includes security over movable and immovable assets, offshore and onshore project contracts, intergroup debt, insurance and reinsurance arrangements, shares at the project company level and further up the corporate chain and over the project accounts.

In addition, the lenders will benefit from a mortgage over project land, once the registration of the land has taken place, which Sanmar is required to complete within six months of financial close. While the provision of such a mortgage as a condition subsequent is not uncommon in Egypt (being seen as largely procedural), should registration of the land and the related mortgage be delayed beyond this point, it was agreed that Sanmar would compensate the lenders with an increase in margin until registration actually takes place.

Furthermore, the lenders benefit from a direct agreement in respect of the sale of VCM to be shipped to Sanmar's PVC plant in Cuddalore, which allows traditional step-in rights and regulates the ability of Sanmar's off-taker to terminate the off-take arrangements.

Limited completion support was provided by Sanmar, supported by a standby letter of credit in favour of the lenders issued by State Bank of India, Chennai branch.

## Revenues during construction

This project employed a relatively novel approach to the provision of equity by Sanmar, to reflect the fact that the existing assets that had been acquired were already generating revenues. In this way, it was agreed that such revenues that had already been generated or were projected to be generated prior to completion of the expanded project, would be deemed to be equity contributions by San-

Limited  
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# TCI Sanmar

The reward comes with the prospect of consolidated sales breaking the US\$1bn barrier.

mar to the project, thereby reducing the amount of hard equity that would be required to be injected to satisfy the debt to equity ratio.

**Equator Principles**

From the outset, Sanmar agreed to comply fully with the Equator Principles, a decision that was seen by the lenders as important given the close proximity of the plant to a populated area. ERM Paris, the lenders' environmental consultant, left no stone unturned and ultimately was happy to endorse a detailed environmental and social impact assessment together with an environmental and social management plan, both of which were reviewed and accepted by the lenders. In this respect, the plant will be a zero discharge plant, a concept that Sanmar is proud of having already implemented at its Indian plants, such as Cuddalore.

**Twists and turns**

The project took many twists and turns but, while the financial crisis deepened, the Indian banks and Arab African International Bank remained committed and undeterred by the rising cost of liquidity, displaying a real sense of confidence in Sanmar's ability to deliver. In particular, ICICI and State Bank of India helped to drive the project toward financial close before the financial year-end and on the March 30 2009, exactly two years to the day after the acquisition of TCI Chemicals, financial close occurred. Sanmar had to pay more than originally expected (430bp over Libor), but the project base case economics well supported this additional cost. The expansion project is now well on course and project completion is expected in March 2010.

**Summary**

The successful conclusion of the financing of the TCI Sanmar project represents a considerable achievement for all parties concerned and is a just reward for the qualities of flexibility, perseverance and hard work demonstrated on all sides during this protracted process. However, in addition to such qualities, a recurring theme in project finance is a need to have luck on your side. Sanmar's case was certainly no different, with many hurdles presenting themselves along the way, not least the onset of an unprecedented economic crisis. Nevertheless, as Thomas Jefferson remarked when asked to explain his apparent good fortune in life, "the harder I work, the luckier I get", which seems to serve as a fitting appraisal of Sanmar's experiences on this project.

Indeed, significant credit goes to Sanmar for leading the project with determination and great professionalism, but in what represents the first major international project financing funded solely by Indian banks, particular praise must also be due to the syndicate of Indian banks that are emerging as new and important players in the international project finance arena. To grapple with the multitude of issues that arose along the way, many without modern precedent, was a considerable achievement and bodes well for the prospects of similar financings when normality returns to the markets.

For the Sanmar group, the reward comes with the prospect of consolidated sales breaking the US\$1bn barrier once the project becomes operational, allowing Sanmar to become the second largest PVC producer in India and among the top 10 producers in the world. Long-term vision and "boundless courage", as illustrated in the story of King Bhagiratha, can produce formidable rewards.

# Eisenwerk Erla Bids Farewell to Two Employees

Ms Heiderose Kröber and Mr Horst Schanze of Eisenwerk Erla retired from service after an association of 45 and 47 years respectively. Mr Schanze, a foundry engineer, started as a technologist in shell moulding, managed the DISAMATIC moulding line and in the final years of his career, was responsible for the entire production processes for both moulding lines. In addition to his official responsibilities, he was also the deputy chairman of the Works Council.

Ms Kröber worked primarily in the Sales department at Erla. She contributed significantly to the development of relationship with customers, especially in Automobile, Engineering and Agricultural industries.

One of the customers, Danfoss Flensburg GmbH, Erla's customer for close to 35 years, honoured Ms Kröber for her work.

The Sanmar Group wishes Ms Kröber and Mr Schanze all the very best.



*L to R: J Ramdas, Dieter Kuppi, Heiderose Kröber, Dietmar Hahn, Horst Schanze, Klaus Purrucker, Manfred Volkmann und Mirko Wächtler.*

**Für Frau Heiderose Kröber und Herrn Horst Schanze beginnt nach 45 bzw. 47 Jahren Betriebszugehörigkeit im Eisenwerk Erla der Ruhestand.**

**Herr Schanze, Gießereingenieur, begann als Technologe im Maskenformverfahren, war für die DISAMATIC Formanlage zuständig und in den letzten Jahren seiner Laufbahn für die gesamten Produktionsprozesse beider Formanlagen verantwortlich. Neben seiner beruflichen Tätigkeit war er auch stellvertretender Betriebsratsvorsitzender.**

**Frau Kröber war hauptsächlich in der Vertriebsabteilung tätig. Sie trug wesentlich zur Entwicklung der Kundenbeziehungen bei, besonders in der Automobil-, Maschinenbau- und Agrarindustrie. Frau Kröber erhielt für ihre Arbeit viel Anerkennung von der Danfoss Flensburg GmbH, ein Kunde der Eisenwerk Erla GmbH seit fast 35 Jahren.**

**The Sanmar Group wünscht Frau Kröber und Herrn Schanze alles erdenklich Gute.**

# A picture speaks more than words...

The world today is an oyster but English sure makes things a bit squishy! Here is a 'confusion gallery' of signs from around the world.

## Chinglish signs



Who actually gets to sit here ?



An angry Chinaman put up this sign?



Native speakers of the language also get their moments of fame at the 'confusion gallery'. (Born in the USA)



A very graphic European sein. – Pablik notiz dat peeing dogz kud geht barnt aun de staik.

**These signs are from Japan. It's anybody's guess what they mean.**



Whodunit? The Japanese cops!



Could there be another way?

**Closer home in Chennai**

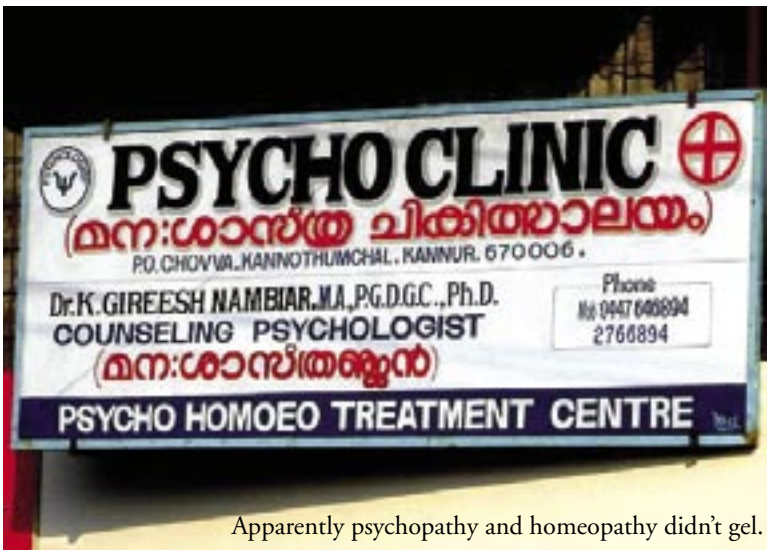
This one says it in just one word “concern”. Is this a quaint response from the city of Chennai as it lives up to recessionary times? It surely is a ‘health concern’, especially in the days of medical tourism in India !

The word ‘concern’ in the photograph is a noun form that refers to a business or manufacturing establishment. But at quick glance, sends your heart into the mouth!



Something doesn't add up? A daft sign with no pictorial cues.

**Our national presence at the 'confusion gallery' must also be commended**



Apparently psychopathy and homeopathy didn't gel.



**Still closer home at one of the Sanmar facilities, identity kept anonymous.**



Pick the right option- a) This sign was made by a male chauvinist. b) Since men gossip as much as women, the 'him' refers to the chauffeur.



*The right way to turn left*





**SA 8000** is a global social accountability standard for improving working conditions and is based on the UN Universal Declaration of Human Rights, Convention on the Rights of the Child and various International Labour Organisation (ILO) conventions.

Chemplast Sanmar's PVC division, Karaikal, has acquired this certification reinforcing its commitment and compliance in issues such as trade union rights, the use of child labour, working hours, health and safety at work and fair pay.



## Sanmar Ferrotech Receives TS 16949 Certification



## MNC Completes SAA Audit

Madhuram Narayanan Centre for Exceptional Children (MNC) completed the Social Accounting and Audit (SAA) programme on the 30 June 2009.

Social Accounting and Audit (SAA), is a framework of accountability developed by an organisation, voluntarily. Social Accounting systems analyse the Social, Economic and Environmental impact of an organisation and report upon it. The MNC's SAA report was analysed and verified by a panel of auditors. The 2-day audit process was led by a certified SAA auditor and chair of the audit panel, Ms Mrinalini Shastry. Working with the Centre for Social Initiative and Management (CSIM) she is actively involved in bringing Social Accounting and Audit to India. MNC's



*Ms Mrinalini Shastry (left) during the audit process.*

report was verified and validated and recommendations were made which the organisation will incorporate in its

processes. Once this process is complete, MNC will receive a certification. The audit panel members include Mr Suresh Rao, Dr K Prabhakaran, Senior VP, Corporate HR, Apollo Hospitals and S Sunder, Chairman & MD, Argus Cosmetics.

The SAA audit helps MNC to review and refine its current systems, improve training to its children, ensure greater accountability to its stakeholders (students, donors, parents, government agencies and board members), improve the credibility of the organisation and get it going on a professional path.

The MNC has been making its mark as a highly professional not-for-profit organisation dedicated to providing training and management of mental retardation in children.



*Mrs Visakha Hari, providing the healing touch to children and parents with the chanting of 'Narayana Manthram'.*

## ProCitius Research and Dalton Pharma Services' Strategic Alliance

ProCitius Research of Sanmar Speciality Chemicals entered a strategic alliance with Dalton Pharma Services of Canada to provide clients with contract chemistry services of exceptional value. In an era of severe cost restraints, Dalton and ProCitius have teamed up to offer clients the best of offshore and onshore facilities in contract chemistry services. The projects are carried out by ProCitius while Dalton deals with the clients assuming full legal and operational responsibility for the satisfactory execution of the contract.

"I believe this type of hybrid service fills an important need in our industry," said Peter Pekos, President and CEO

of Dalton Pharma Services. "Over the past two decades I have worked to adjust our service offering to meet the changing requirements of my clients and today's announcement is part of this continuing evolution," he continued. "In ProCitius we have the ideal partner: well-established; large FTE headcount; excellent facilities and infrastructure; robust documentation; and a reputation for high ethical and environmental standards."

Jeri Raman, VP Business Development of ProCitius Research, remarked, "We are extremely pleased to have established this strategic alliance with Dalton Pharma Services. The reputation of Dalton as a

premium CRO in the areas of chemistry and medicinal chemistry makes it the perfect choice for the expansion of our business with the global pharmaceutical industry."

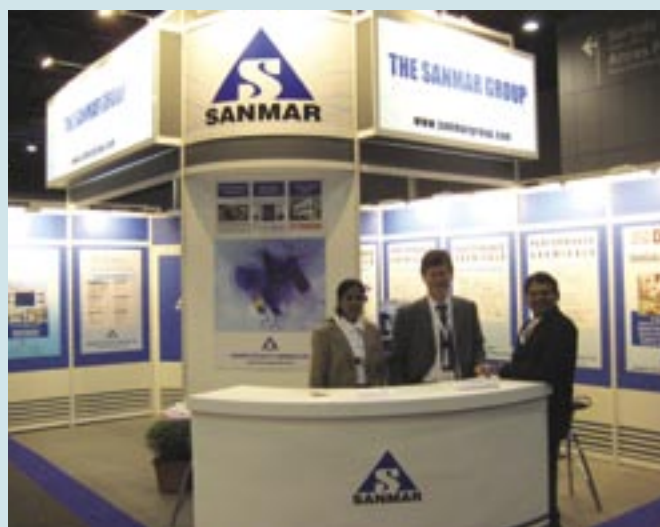
ProCitius is the research arm of Sanmar Speciality Chemicals. Dalton Chemical Laboratories Inc. o/a Dalton Pharma Services is a Health Canada approved contract pharmaceutical manufacturer that supplies chemistry, medicinal chemistry and analytical services to the biotechnology and pharmaceutical industries in the areas of chemistry, medicinal chemistry, fine chemical manufacture, custom peptides and antisense oligo production.

## Geneti at Bangalore Bio

Bangalore Geneti, a division of Sanmar Speciality Chemicals, participated in the Bangalore Bio exhibition. Geneti's stall had about 300 visitors and Yeshodari, Krishna and Deepti's efforts brought in the "Best Biocontent and Display" award for Bangalore Geneti. Congratulations to the team!



## Chemspec 2009, Barcelona



L to R: Dr Bhuvaneswari Sridhar, ProCitius Research, Francois Vuillemin, SSCL, Europe, Vivek Save, Performance Chemicals, SSCL.

## C P Ramaswami Iyer

Sir Chetpat Pattabhirama Ramaswami Iyer, (1879-1966), was a lawyer, administrator and politician par excellence of twentieth century India. He served as the Advocate-General of Madras Presidency from 1920 to 1923, Law member of the Executive Council of the Governor of Madras from 1923 to 1928, Law member of the Executive Council of the Viceroy of India from 1931 to 1936 and finally the Dewan of Travancore from 1936 to 1947.

Born on the 12th of November, 1879 as the only son of Judge C R Pattabhirama Iyer and Seetha Lakshmi Ammal, "CP" went to school at the Wesley College High School, Madras, did his B.A. from the Presidency College, Madras, and later took a degree from the Madras Law College.

CP was born on the day of Deepavali; his admirers ascribed his great successes and achievements in life to that auspicious beginning. In his grown years, CP was the cynosure of all eyes and had an aura of personal magnetism and charm. He was the eighth descendant of Appayya Dikshitar, a celebrated polymath.

CP's student days were of strict regimentation and discipline, helping him to blossom into brilliant manhood. It helped him develop self-confidence, energy, perseverance and industry. Right from his childhood he was made to speak and think in English. Apart from poems

of Shelley, Coleridge and Wordsworth, CP also memorized passages from Schopenhauer and Nietzsche. He was acquainted with the theories of Darwin and Huxley. He mastered the Bible when he was a student of the Wesley College High School and won the Peter Cator Prize for Bible studies and a scholarship. He earned a double promotion and passed his matriculation exams at 14.

CP joined the Presidency College, Madras, in 1894 for his intermediate and while doing this course he married Seetammal. After joining the graduate course, CP began intensive study of Sanskrit and Vedanta, at the same time evincing a keen interest in extra academic activities. He joined the Madras University union and overcame stagefright thanks to the persuasive powers of G A Natesan, his senior in college. CP always acknowledged that this laid the foundation of that forthright readiness to speak on all sorts of occasions on a variety of subjects. CP was also a connoisseur of the arts.

Completing BA in Mathematics and securing the first rank in 1898, CP later took a degree in English and became a double graduate. He was nominated by his college Principal for the Indian Audit and Accounts Service, but CP's father vetoed the proposal. Wanting to teach English, the young man applied for the post of an Assistant Professor, again to be

overruled by his father. The dutiful son joined law college to fulfil the wish of his father in 1899 and completed the course in 1901. His father passed away in 1902 while CP was still an apprentice-at-law.

CP was enrolled as a lawyer in 1903 and rose rapidly to prominence. He made an exhaustive study of every case, devoting time to read all the literature available on the subject. His phenomenal success at the Bar in Madras brought him a fabulous income of Rs 25000 per month. He was perhaps the first Indian lawyer to own a motorcar - a Hudson. In 1912, he was elected to the Senate of the University of Madras.

CP's clientele included some of the Princely States. Travancore was the first state in India to seek his services. The royal family and Sri Mulam Tirunal were immensely impressed by CP's handling of the Ashe assassination case. The help he extended to the labourers of the Buckingham and Carnatic Mills at the request of BP Wadia was another milestone in CP's legal career. His arguments on behalf of Mrs Annie Besant—when, under the Press Act of 1910, the chief presidency magistrate imposed restrictions on her newspaper *New India*, were of great interest. To CP goes the credit of continuing the glorious task of capturing the original side of the Madras High Court from the monopolistic grip of English barristers and solicitors.

CP advocated the scrupulous cultivation of the following qualities to become a lawyer of repute.

“Courage, independence, dignity, courtesy, patience, good physique and a sense of humour, the ability to laugh at yourself, to find out exactly how far you will fall below your own expectations is a wonderful requisite and attribute both of the bench and the Bar”.

Ramaswami Iyer was elected secretary of the Indian National Congress in 1917. Earlier, between 1903 and 1916 he practised law in Madras, winning several popular cases succeeding S Srinivasa Iyengar as the Advocate-General of the Madras Presidency. Between 1921 and 1923 several Acts, such as the City

Municipalities Act, and the Madras Local Boards Act were passed. Between 1923 and 1928 he served as Law Member of the Executive Council, Government of Madras, first during Lord Willingdon’s and later during Lord Goschen’s rule as governor; in-charge of Law, Police, Irrigation and Ports, and Electricity. The title of Knight Commander of the Order of the Indian Empire (KCIE) was bestowed upon him in 1926.

Sir CP was the Indian delegate at the League of Nations in Geneva in 1926-27. The same year he became a member of the Executive Council, Government of Madras. By 1931 he was a Law Member of the Government of India and in 1932 attended the Third Round Table Conference at London.

For the next four years, Sir CP was the constitutional advisor to the Maharajah of Travancore, Sri Chithira Tirunal. The sole Indian delegate to the World Economic Conference in 1936, Sir CP later drafted a Constitution for the state of Kashmir. From 1936 to 1947 he was the Dewan of Travancore, introducing such social and administrative reforms as the Temple Entry Proclamation (1936), a worthy achievement, as it allowed entry of temples to dalits for the first time. G A Natesan remarked that this one reform alone raised Chithira Tirunal to the rank of one of the greatest of Hindu reformers, Ramanujacharya. After announcing the proclamation, the Maharaja conferred the title *Sachivottama* as a token of his warm appreciation of Sir CP’s loyalty and devotion to his person.

Sir CP was hailed for abolition of capital punishment, universal adult franchise and the mid-day meal scheme in Travancore state. He was responsible for the establishment of numerous hydro-electric power projects and the creation of Kerala University. Among his other achievements was his representation of India as a delegate at the League of Nations held at Geneva in 1926 and Commonwealth Universities Conference. He also helped in setting up the Swati Tirunal Academy at Thiruvananthapuram.

CP is also remembered for the ruthless suppression of the Punnappa-Vayalar revolt organised by Communists and his controversial stand in favour of an independent Travancore. Ramaswami Iyer served in numerous international organisations and on the boards of several Indian universities. Ramaswami Iyer died in 1966 at the age of 86 while on a visit to the United Kingdom.



Illustration by V Vijayakumar

