

DCM Shriram Consolidated Ltd. **INR 58****We Agri with this****BUY**

Oct 09, 2009

Company Background

DCM Shriram Consolidated Ltd (DSCL) is an integrated business entity, with an extensive & growing presence across the entire Agri rural value chain & energy intensive Chloro-Vinyl industry. With over 30 years of experience in managing large scale process industries with sustained high level of performance, DSCL meets the needs of a wide range of customers from farmers to industrial users, from house builders to business owners. With a large base of captive power produced at a competitive cost, the company aims at maximizing value creation in its Chloro-Vinyl businesses. High-value & knowledge based business being incubated by DSCL include Hariyali Kisaan Bazaar (HKB), Fenesta Building Systems & Hybrid Seeds.

Investment Rationale

➔ Financial performance

During Q1FY10 DSCL's, Net Sales grew by 13% YoY to INR 8976 mn as against INR 7932 mn, while its Net profit zoomed by 336% to INR 212 mn vs INR 49 mn during the same period a year ago. It reported a Operating Profit of INR 1011 mn & OPM of 11.26%. Revenues from its Agri Business helped DSCL's to post better Net Profit on the back of higher sales realization & good volumes. Sugar divisions revenues went up by 92% to INR 2037 mn vs INR 1061 mn, while Agri Input revenues increased by 43% to INR 1539 mn vs INR 1073 mn. HKB revenues were at INR 1087 mn vs 870 mn & Chloro-Vinyl Business at INR 2098 mn which were down by 7.60%.

Some key points which would help DSCL to perform well in near future

- ➔ ~275 MW of power generating capacity with multiple uses (including sale) would strengthen DSCL's competitiveness & would help it to optimize the earnings per unit of power.
- ➔ DSCL is building a robust agri-inputs portfolio of value added products based on strong research & intensive agri-extension work with farmers.
- ➔ New business initiatives like i.e 'Hariyali Kisaan Bazaar', 'Fenesta Building Systems' & 'Bioseed' could exhibit strong potential for value growth over the next few years
- ➔ Increased realizations in sugar business would help more, while its cement business though small demonstrates, management ability would help to create value along every step of the value chain.
- ➔ Hariyali, with over 302 outlets in 8 states, is the largest rural network of one stop destination for all needs of the farmers & the rural households. It is aggressively enhancing its rural penetration with continuous updation of its offerings. This would lead to high growth in revenue & margins going forward.
- ➔ A lot of the varied businesses are conducted through 100% subsidiaries. A sum of INR 551 mn has been invested in different subsidiaries. Over time, value unlocking of these investments could happen by part/full divesting of stakes in them by DSCL.
- ➔ The company is emerging as one of the top three manufacturers of Chlor-Alkali products.

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Info Codes

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Bloomberg	:DCMS@IN
NSE	:DCMSRMCONS
BSE	:523367

Market Data

52 Wk Range (INR)	: 71 / 21
Shares in Issue (mn)	: 169.8
Mkt. Cap (INR bn)	: 9.71
BSE 2 Wk Avg Vol	: 33641

Share Holding Pattern (%)

Promoters	: 55.26
MFs, Fls & Banks	: 5.19
FIIIs	: 1.01
Others	: 38.54

Investment Theme

DSCL, is actively engaged in manufacturing & providing of agri products, energy intensive products & energy services. One of the key strength of the company is its diversified portfolio, having its business operations in 8 circles including Fertilisers, Plastics, Chemicals, Agri inputs -Trading, Sugar, Cement, Hariyali Kisaan Bazaar & Others. Its new business segments HKB, Fenesta Building Systems, Agri Inputs & Bioseed are showing growth momentum & have contributed to the improved performance. With the combination of solid operating businesses & high growth leadership oriented business, DSCL is likely to deliver growth over the longer term.

Sowing seeds of Growth

DACLs Business Wise Performance

➔Chloro – Vinyl Business

DACL's Chloro-Vinyl business is highly integrated, supported by 143 MW coal based power facilities. This business has multiple revenue streams the major being Chlor-Alkali (Caustic Soda & Chlorine), PVC resins, Calcium carbide & Power. These revenue streams ensure maximization of earnings per unit of power produced & lend stability to the chloro-vinyl operations.

Particulars (INR in Mn)	Q1FY09	Q1FY10
Sales	2270	2098
PBIT	640	563
Capital Employed	8198	8093

(Source: Company Press Release)

➔Chlor-Alkali Business

Chlor-Alkali has 2 products viz, Caustic Soda & Chlorine which are basic industrial chemicals, used primarily by Aluminum, Paper & Soap Industry. The Company's Chlor-Alkali manufacturing facilities at Kota (Rajasthan) & Bharuch (Gujarat) add up to a total capacity of 765 TPD, thereby placing it among top 3 players in the domestic Chlor-Alkali industry. During the year the capacity expansion at Bharuch was completed, thereby adding 240 TPD along with setting up of 48 MW Coal Based captive power plant

Particulars	Q1FY09	Q1FY10
Sales (MT)	49098	48642
Realization (INR/MT)	24214	18594

(Source: Company Press Release)

➔PVC Resins Business

DACL's this business is an integral part of the Chloro-Vinyl business, with complete backward integration in terms of power, chlorine & calcium carbide & has developed forward value chains which includes PVC Compounding, Cement & Fenesta Building Systems. These multiple products at both ends, provide the ability for product swings to maximize the returns. DACL has an annual capacity of 70,000 TPA of PVC Resin at its Kota Manufacturing Complex, 112,000 TPA of Calcium Carbide of which, approx. 80% is used to produce Acetylene for production of PVC Resins, balance ~ 22,000 MT is marketed is sold as packed Carbide. DACL manufactures PVC Resin through the Carbide/Acetylene route as against the Ethylene route, which is being followed by most of the companies manufacturing PVC worldwide except China. This route enables superior product that is preferred by quality conscious customers. The integrated nature of this operation results in low the cost of production & also provides a hedge against volatility in crude prices.

Particulars	Q1FY09	Q1FY10
Sales (MT)	17874	3864
Realization (INR/MT)	56726	47086

(Source: Company Press Release)

➔Power

Power being one of the key inputs, is one of the most critical business activities of the company. The company currently has a total installed capacity of 275 MW at various locations, of which 181 MW is coal based & 94.5 MW is bagasse based. Of this 51.5 MW bagasse based power is dedicated to supply to power distribution companies. The balance 223.5 MW has multiple uses &

DACLs Business Segment

Chloro-Vinyl business

➔Chemicals Business

This comprises of Caustic Soda (Lye & flakes), Chlorine (Liquid & Gaseous) & associated chemicals including Hydrochloric acid, Stable Bleaching powder, Compressed Hydrogen & Sodium Hypochlorite. The Company has two manufacturing facilities located at Kota (Rajasthan) & Bharuch (Gujarat) with full captive power. It has increased the capacity of its chlor-alkali manufacturing facility at Bharuch from 200 TPD to 440 TPD & also set up a 48 MW coal based power plant to generate economical power at Bharuch.

➔Plastics Business (PVC Resins & Compounds)

This is highly integrated, covering manufacturing of PVC resins & Calcium Carbide, PVC Compounds & UPVC Fenesta Windows (a consumer product). The Company is able to capture value at each stage of the entire value chain.

- i. PVC Resin is fully integrated with captive production of acetylene, chlorine & coal based power, located at Kota.
- ii. PVC Compounds of which the company is the largest manufacturer in the organised sector is backed by an innovative Polymer Application Development Centre (iPAC) at Gurgaon, India.

➔Cement

DACL processes the waste sludge produced during the manufacture of calcium carbide to make cement. The company has a cement capacity of 0.4 mn TPA.

➔Fenesta Building Systems

It manufactures UPVC windows (Un-Plasticized PVC) & door systems under the brand 'Fenesta'. It offers complete solutions right from design, fabrication to installation at the customer's site

revenue streams. The company built swing capabilities to use power for various revenue streams to maximize the earnings per unit of power. It keeps strengthening these swing capabilities further to enhance profitability. Going forward, the company will work towards securing the supply of coal on long-term basis at economical costs. As of date, the company imports coal from Indonesia, largely on spot basis. During the quarter under review, the company took advantage of its flexi & swing capability in its Chloro-Vinyl operation to reduce the production of Chloro-Vinyl products at its Kota Complex & sell Power, enabling profitable cash flows & optimising returns. The average per unit realisation for power sale at Kota has been ~INR 6.9 per unit

Power (INR in Mn)	Q1FY09	Q1FY10
Revenues	3.0	702
PBIT	0.1	402

(Source: Company Press Release)

➔ Agri Business

Fertilizers (Urea)

DSCL's Urea has an approved capacity of 3,79,000 TPA of urea at its integrated manufacturing complex at Kota, Rajasthan. The company is the lowest cost producer of urea in the pre-92 naphtha based group & markets its product under the 'Shriram Urea' brand. In 2006-07, the plant was modified to be capable of having Natural Gas / LNG as its feedstock besides Naphtha. However, availability of Natural Gas/LNG in FY09 was restricted. The company has now entered into a long-term gas supply agreement to procure natural gas from KG Basin, meeting its full requirement. Moving to Urea production based on Natural Gas will benefit the Company in terms of lower outstanding subsidies & higher energy efficiencies. The Company used Natural Gas & Naphtha in the ratio of almost 92:8 during the period under review. The company started receiving supplies of LNG w.e.f May 12, 2009 against allocation for KG basin under long term contract, which will meet 100% of its requirement. This will strengthen cost competitiveness and result in energy savings.

Particulars (INR in Mn)	Q1FY09	Q1FY10
Sales (MT)	100114	97979
Realization (INR/MT)	20353	12852
Revenues	2018	1264

(Source: Company Press Release)

Sugar

DSCL with a Capacity of 33,000 TCD is one of the major player in the UP Sugar Industry. The Company has four sugar units located across Central U.P. at Ajbapur (10,500 TCD), Rupapur (6,500 TCD), Hariawan (8,000 TCD) & Loni (8,000 TCD). The four units have a total sugar co-generation power facility of 94.5 MW out of which 51.5 MW is dedicated to sale to power distribution companies. The growth in earnings was restrained on account of higher cost of production in the sugar season 2008-2009 due to lower cane availability, higher cost of cane and lower recovery, being the industry wide scenario

Particulars (INR in Mn)	Q1FY09	Q1FY10
Sales (MT)	56513	86856
Realization (INR/MT)	14090	22140
Revenues	1061	2037

(Source: Company Press Release)

Agri-Business

➔ Urea

The Company has the dual feed Naphtha/LNG based urea plant with a capacity of 0.38 mn T.P.A., located at its integrated manufacturing facility at Kota. It is currently operating on 100% LNG.

➔ Sugar

The Company's sugar business comprises of 4 facilities with a combined capacity of 33,000 TCD in Central U.P. & Co-Gen power capacity of 94.5 MW.

➔ Hariyali Kisaan Bazaar (HKB)

These are 'Rural Business Centres' which are a one stop solution to the multiple needs of the rural communities (both business & family needs). Currently there are 301 such outlets in operation.

➔ The Agri-Inputs business

This business provides total agri-inputs to farmer community by offering a range of fertilizers, micro-nutrients, hybrid seeds, pesticides etc. through its wide distribution network.

➔ Seeds

The Company offers a range of hybrid seeds under the brand 'Bioseed' in the country through its subsidiary Shriram Bioseed Genetics India Ltd. The Company also operates seeds business in Vietnam, Thailand, Philippines & Indonesia.

Agri Inputs

The Agri-Inputs business provides a wide range of farm inputs to the farmer including fertilizers, seeds & pesticides. The Shriram brand of Agri-Inputs is known for its quality & enjoys a very high brand value in the market. The product range has been continuously expanded to better serve the requirements of the market. These products are backed up by an extensive services network that helps in transferring the latest technology & improving the farming practices. As part of its drive to help the farmer increase crop productivity & standard of living, the company also pioneered an Agri-education program in the name of Shriram Krishi Vikas Kendra (SKVK). The program envisages to educate the farmer community about the best practices in Agriculture.

Power (INR in Mn)	Q1FY09	Q1FY10
Revenues	1073	1539
PBIT	58	78

(Source: Company Press Release)

Haryali Kisaan Bazaar (HKB)

DSCL, which entered into rural retail in FY03 with Five stores is currently present in Eight states with a complex business model. It not only offers goods but also services in three verticals retail, agri business & financial services. Haryali Kisaan Bazaar follows the correspondent model while offering products from ICICI & HDFC to local villagers. DSCL is in talks with PSU banks, which have suitable products for the rural customer. The company is aiming to consolidate the business in FY10 after doubling its store count in the last 3 years, along with focusing to increase its efficiency, improve its procurement mechanism, including its logistics & aggressively promote its agri-products. In FY09, it has 302 stores while in FY08 there were 160 stores & prior to that in FY07 it had 70 stores. Haryali operates in two formats – 1) Centre which is spread across 2 to 4 acre land with facilities such as petrol pump, warehousing, collection of farm produce & milk produce & 2) Located in market places of small towns, the store format is spread on area of 4,000 sq ft to 5,000 sq ft & retails agri inputs & FMCG products. HKB provides facilities such as commodity trading, warehousing, collection of milk & more.

Power (INR in Mn)	Q1FY09	Q1FY10
Revenues	870	1087
PBIT	(111)	(166)

(Source: Company Press Release)

Key Financials

Year Ended Mar 31 st	FY 07	FY 08	FY 09
Revenue (INR mn)	27340	32934.1	34883.1
Rev. growth (%)	16.16	20.46	5.92
EBITDA (INR mn)	2604.5	9948.7	4158.1
Net profit (INR mn)	458.1	6709.9	1017.9
Shares outstanding (mn)	169.8	169.8	169.8
EPS (INR)	2.7	39.5	6.0
EPS growth (%)	(60.23)	1364.72	(84.83)
P/E (x)	34.7	1.4	4.1
EV/ EBITDA	66.7	11.2	14.7
ROCE (%)	3.32	37.17	4.31

Other Businesses

→ Textiles

The Company has a small textile operation in the form of 12,856 spindles spinning unit at Tonk in Rajasthan. The expansion of capacity has resulted in enhanced production from 6 tpd to 12 tpd

→ Energy Services (ESCO)

This business assists energy users (industrial, institutional, commercial in achieving efficiency in energy usage, provides engineering & project management services for biomass/ conventional fuel based power plants.

Capex projects on hand

Project Name:-

Kota Extrusion Plant Project

Location:- Kota Rajasthan

Cost :- INR 350 mn

Product:- Plastic products

Capacity:- NA

Project Name:-

Kalyani Fabrication Plant Project

Location:- Kalyani Nadia WB

Cost :- INR 80 mn

Product:- Doors, windows & their frames, etc.

Capacity:- 4000 Units

Project Name:-

Windows Expansion Project

Location:- Hyderabad AP

Cost :- INR 50 mn

Product:- Windows

Capacity:- 50000 Nos

Project Name:-

'Haryali Kisaan Bazaar' Shop project

Location:- Multilocation - Multi States

Cost :- NA

Product:- Haryali Kisaan Bazaar

Capacity:- 200 Outlets

Financial Statements

Income Statement

(INR mn)

Year end Mar 31 st	FY 07	FY 08	% Chg	FY 09	% Chg
Operating Income	28734.3	26886.6	(6.43)	34054.9	26.66
Other Income	427.1	8113.6	1799.70	784.0	(90.34)
Change in Stocks	374.7	1986.4	430.13	(762.4)	(138.38)
Raw Material Con.	18385.4	17264.3	(6.10)	20524.5	18.88
Employee Exp.	1481.1	1926.3	30.06	2366.0	22.83
Excise	1821.4	2066.1	13.43	1658.5	(19.73)
Other Exp.	5243.7	5781.2	10.25	5297.2	(8.37)
Operating Exp.	26556.9	25051.5	(5.67)	30680.8	22.47
Operating Profit	2177.4	1835.1	(15.72)	3374.1	83.86
Total Interest	913.1	899.7	(1.47)	1589.9	76.71
Gross Profit	1691.4	9049.0	435.00	2568.2	(71.62)
Net Dep.	902.6	1221.3	35.31	1464.1	19.88
Total Taxation	330.7	1117.8	238.01	86.2	(92.29)
Net Profit/Loss	458.1	6709.9	1364.72	1017.9	(84.83)

4 Years Balance Sheets

(INR mn)

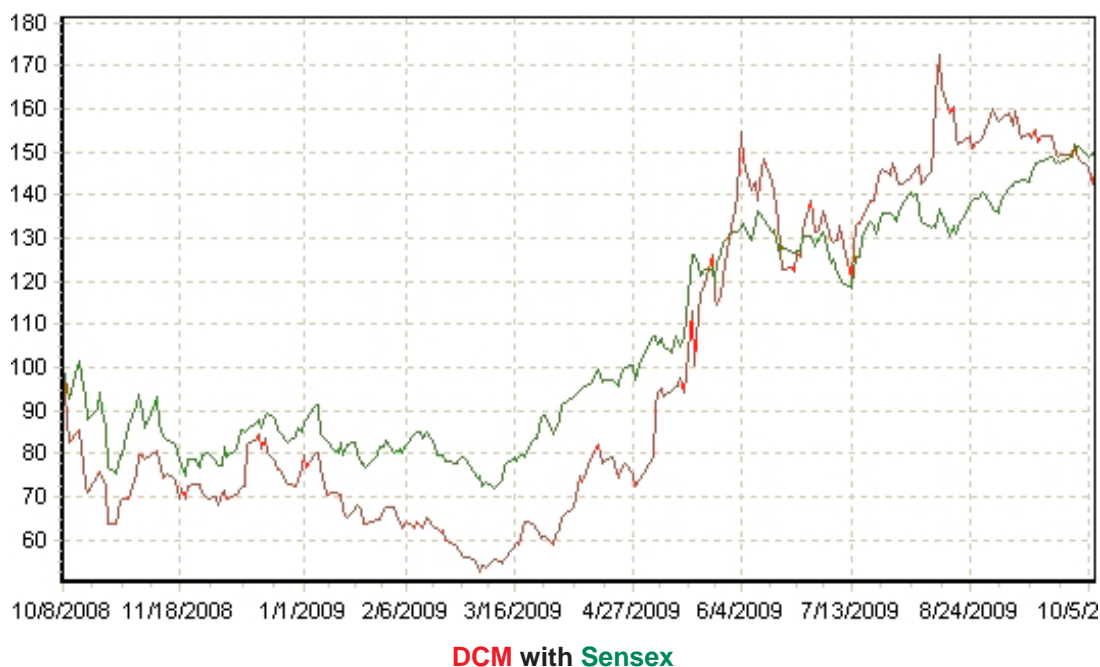
Balance Sheet as on 31 st	Mar 2006	Mar 2007	Mar 2008	Mar 2009
SOURCES OF FUNDS	15881.6	20722.8	29026.0	31930.2
Equity Share capital	333.4	333.4	333.4	333.4
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	4880.2	5184.9	11119.9	11982.5
Loan Funds	7436.1	9783.8	12342.1	13567.1
Unsecured Loans	3231.9	5420.7	5230.6	6047.2
USES OF FUNDS	15881.6	20722.8	29026.0	31930.2
Gross Block	14753.4	21902.2	23328.0	28696.3
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	14163.4	4987.4	6170.0	7533.5
Net Block	10590.0	16914.8	17158.0	21162.8
Capital Work in Progress	1833.7	570.1	2484.0	241.0
Investments	344.9	339.9	1981.2	2311.5
Current Assets	10492.8	13610.0	14414.3	16110.7
Less : Current Liabilities	7379.8	10712.0	7011.5	7895.8
Net Current Assets	3113.0	2898.0	7402.8	8214.9
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	336.6	331.6	1972.9	556.3
Mkt Val. Quoted Investments	58.5	8.3	8.4	0
Contingent Liabilities	2570.8	951.7	1146.7	304.1
Dividend (%)	45	40	170	40

Quarterly Income Sheets

(INR mn)

Quarter Ended	Sep 08	Dec 08	Mar 09	Jun 09
Net Sales	9656.8	9184.8	7344.1	8975.6
Cost Of Sales	8108.7	7281.6	5098.4	7294.1
Operating Profit	1548.1	1903.2	2245.7	1681.5
Recurring Income	46.4	68.7	59.8	63.2
Adjusted PBDIT	1594.5	1971.9	2305.5	1744.7
Financial Expenses	337.7	467.9	388.1	286.6
Depreciation	337.8	376.7	430.5	386.0
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	919.0	1127.3	1486.9	1072.1
Tax Charges	13.8	59.4	0.0	126.0
Adjusted PAT	905.2	1067.9	1486.9	946.1
Non Recurring Items	0.0	0.0	368.0	0.0
Other Non Cash Adjust	834.0	977.4	1047.4	733.7
Net Profit	71.2	90.5	807.5	212.4

52 Week Index Relative Percentage Appreciation

**Risks Associated related to its segments**

DACL has a diversified portfolio that reduces the risks of its business, but still there seems to be some risks connected with its related sector.

Fertilizer

Monsoon plays an important role here. Poor rainfall would led less spending on fertilizers by the rural sector, which would have an impact on the margins of this particular segment.

Sugar

One of the main concern associated with this sector is high sugarcane prices & payment of the cane arrears, which led the farmers to diversify to other crops for their regular income. Even the government policies plays a great role here.

Raw Material prices

Volatility in the prices of its related raw material, would require more working capital which in turn could impact the profitability margins of the company & its business.

In a Nutshell

DSCL currently operates in various segments viz Fertilizers which includes manufacturing of Urea, Chloro-Vinyl (which includes manufacturing of poly-vinyl, chloride, carbide & chlor alkali products) ,Agri inputs which includes trading of di-ammonium phosphate, murite of potash, super phosphate, other fertilizers, seeds & pesticides, Sugar which includes manufacturing of sugar products & co-generation of power, Cement which include manufacturing of cement, Hariyali Kisaan Bazaar which comprises rural retail & agri businesses & others (which includes unplasticised poly vinyl chloride (UPVC) window systems, textiles, plaster of paris & compounds). DSCL has an integrated business entity, with extensive & growing presence across the entire Agri-rural value chain & Chloro-Vinyl industry & has added innovative value- added businesses in these domains. With a large base of captive power produced at a competitive cost, the company aims at maximizing value creation in its Chloro-Vinyl businesses.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate up to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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