

RESULT UPDATE

DCM Shriram Consolidated

**Maintain
Outperformer**

Price: Rs 56

BSE Index: 15,062

21 July 2009

Share Data

Reuters code	DCMC.BO
Bloomberg code	DCMS IN
Market cap. (US\$ mn)	191
6M avg. daily turnover (US\$ mn)	0.1
Issued shares (mn)	166
Target price (Rs)	79

Performance (%)	1M	3M	12M
Absolute	13	75	1
Relative	8	26	(10)

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	6.3	10.0
+/- (%)	25.6	60.1
PER (x)	8.9	5.6
Dividend/Yield (%)	1.8	2.2
EV/Sales (x)	0.8	0.6
EV/EBITDA (x)	7.7	5.9

Major shareholders (%)

Promoters	55
FII's	1
MF's	5
BFSI's	12
Public & Others	27

Financial highlights

(Rs mn)	1QFY09	1QFY10	YoY (%)	FY08	FY09	YoY (%)	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	7,932	8,936	12.6	24,896	33,908	36.2	39,322	16.0	48,180	22.5
EBITDA	624	948	52.0	1,847	3,280	77.6	3,834	16.9	4,818	25.7
EBITDA Margin (%)	7.9	10.6	-	7.4	9.7	-	9.7	-	10.0	-
Other Income	56	63	13.7	348	484	39.2	531	9.6	602	13.5
Depreciation	319	386	21.0	1,221	1,464	19.9	1,559	6.5	1,672	7.3
Interest	274	287	4.5	847	1,468	73.3	1,324	(9.8)	1,268	(4.2)
PBT	86	338	294.4	126	832	557.9	1,482	78.1	2,480	67.3
Tax	37	126	239.6	62	6	(89.9)	445	7,072.4	818	84.0
Prior Period/Exceptional Income	-	-	-	(6,645)	(192)	-	-	-	-	-
Reported PAT	49	212	336.1	6,710	1,018	(84.8)	1,038	1.9	1,661	60.1
Adjusted PAT	49	212	336.1	65	826	1,172.9	1,038	25.6	1,661	60.1
Adjusted PAT margin (%)	0.6	2.4	-	0.3	2.4	-	2.6	-	3.4	30.7
EPS (Rs)	0.3	1.3	336.1	0.4	5.0	1,172.9	6.3	25.6	10.0	-

1QFY10 Result – Growth led by Agri Business

DCM Shriram Consolidated's (DSCL) results were in line with our expectations. DSCL reported a YoY revenue growth of 12.6% at Rs 8.9 bn. The revenue growth is attributable mainly to agri input and sugar segment as these grew by 44% and 92%, respectively, on YoY basis. The EBITDA margin witnessed an improvement of 275 bps on YoY basis, as the sugar business turned around along with improved performance in fertiliser and cement division. The company reported a PAT of Rs 212 mn, a growth of 336% on YoY basis.

Going ahead, we expect fertiliser segment to report decline in revenues as it will be using low cost LNG (a pass-through cost having no real effect on earnings) along with shutdown of plant in 2QFY10 but the loss of production will be made for in subsequent quarters.

In sugar segment, though the company is holding high cost inventory, however, profitability will be driven by firm and improved sugar realisations. Cane cost and availability remains a concern for the upcoming sugar season i.e. SS09-10.

The company will continue its consolidation process in Hariyali Kissan Bazaar for further improvement in its performance so as to achieve early break-even.

Though recently disclosed IIP numbers indicate improving scenario, the realisation in the chloro vinyl segment is expected to improve with a lag effect.

With activity in construction and real estate sector gaining momentum due to improved liquidity situation, the volumes in cement segment are expected to improve further.

At the current market price of Rs 56, the stock is trading at 7.7x and 5.9x FY10E and FY11E EV/EBITDA. We maintain our Outperformer rating on the stock.

Highlights

- The fertiliser segment revenues declined by 37% YoY due to reduction in realisation (down 37% YoY) on account of lower cost of LNG (a pass-through cost having no real effect on earnings).
- Increased volumes (up 54% YoY) and improved realisation (up 57%YoY) in the sugar segment resulted in turnaround of the same. The realisation improved due to the ongoing demand supply mismatch in the commodity.
- In Hariyali Kisaan Bazar, DSCL had 301 outlets consisting of 83 centres and 218 stores. There was no addition of outlets during the quarter, as the company focused on consolidation which resulted in reduced losses.
- The chloro vinyl segment continued to be under pressure due to lower realisation, as there has not been enough improvement in demand due to industrial slowdown. The swing capability in terms of power sales help the segment to sail through tough times.
- The cement segment reported improved performance due to increase in volumes (up 14%YoY) and better realisations (up 12% YoY) as the real estate and construction sector has shown signs of improvement.

Segmental results

(Rs mn)	1QFY09	1QFY10	YoY (%)	FY08	FY09	YoY (%)
Segment revenue						
Fertiliser	2,018	1,264	(37.3)	7,048	7,975	13.2
Agri Input	1,073	1,539	43.5	1,585	4,285	170.3
Sugar	1,061	2,037	91.9	4,743	6,118	29.0
Hariyali Kissan Bazaar	870	1,087	24.9	2,221	4,191	88.7
Chloro-Vinyl	2,270	2,098	(7.6)	6,940	8,407	21.1
Cement	284	360	26.8	1,195	1,282	7.2
Others	593	707	19.2	1,919	2,579	34.4
Total	8,169	9,091	11.3	25,653	34,837	35.8
Less Inter-segmental	193	116	(40.1)	516	676	30.9
Net Sales	7,976	8,976	12.5	25,136	34,162	35.9
Segmental EBIT						
Fertiliser	101	69	(31.8)	197	258	31.1
Agri Input	58	78	35.4	73	231	217.1
Sugar	(87)	61	–	(50)	879	–
Hariyali Kissan Bazaar	(111)	(167)	–	(296)	(646)	–
Chloro-Vinyl	640	563	(12.1)	1,490	1,975	32.6
Cement	66	124	89.3	276	255	7.8
Others	(8)	12	–	(175)	(35)	–
Total	659	740	12.2	1,515	2,916	92.6
Less: Interest	274	287	4.5	847	1,468	73.3
Less: Other unallocable expenditure net off income	299	116	(61.3)	636	688	8.2
Add: Exceptional item	–	–	–	7,796	–	(100.0)
PBT	86	337	(292.8)	7,828	760	(90.3)
Capital employed						
Fertiliser	1,887	1,022	–	2,062	2,038	–
Agri Input	973	925	–	590	687	–
Sugar	12,204	10,778	–	12,544	12,070	–
Hariyali Kissan Bazaar	3,646	5,257	–	2,805	4,369	–
Chloro-Vinyl	8,198	8,093	–	7,804	8,130	–
Cement	272	275	–	258	217	–
Others	1,748	1,969	–	1,584	2,011	–
Total	28,927	28,318	–	27,646	29,521	–

Return ratios

(%)	1QFY09	1QFY10	FY08	FY09
Segmental EBIT margins				
Fertiliser	5.0	5.5	2.8	3.2
Agri Input	5.4	5.1	4.6	5.4
Sugar	(8.2)	3.0	(1.1)	14.4
Hariyali Kissan Bazaar	(12.7)	(15.3)	(13.3)	(15.4)
Chloro-Vinyl	28.2	26.8	21.5	23.5
Cement	23.1	34.5	23.1	19.9
Others	(1.4)	1.6	(9.1)	(1.4)
Total	8.1	8.1	5.9	8.4
Segmental RoCE				
Fertiliser	5.4	6.8	9.6	12.7
Agri Input	5.9	8.4	12.3	33.6
Sugar	(0.7)	0.6	(0.4)	7.3
Hariyali Kissan Bazaar	(3.0)	(3.2)	(10.6)	(14.8)
Chloro-Vinyl	7.8	7.0	19.1	24.3
Cement	24.1	45.1	107.1	117.6
Others	(0.5)	0.6	(11.0)	(1.7)
Total	2.3	2.6	5.5	9.9

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net Sales	24,896	33,908	39,322	48,180
Growth (%)	(8.0)	36.0	16.0	23.0
Operating Expenses	(23,048)	(30,628)	(35,488)	(43,362)
Operating Profit	1,847	3,280	3,834	4,818
EBITDA	1,847	3,280	3,834	4,818
Growth (%)	(8.8)	77.6	16.9	25.7
Depreciation	(1,221)	(1,464)	(1,559)	(1,672)
Other Income	348	484	531	602
EBIT	974	2,300	2,806	3,748
Interest Paid	(847)	(1,468)	(1,324)	(1,268)
Pre-tax profit	127	832	1,482	2,480
(before non-recurring items)				
Non-recurring items	6,645	(72)		
Pre-tax profit	6,772	760	1,482	2,480
(after non recurring items)				
Tax (current + deferred)	(62)	(6)	(445)	(818)
Net Profit	6,710	754	1,038	1,661
Prior period adjustments	0	264	0	0
Reported PAT	6,710	1,018	1,038	1,661
Adjusted net profit	65	826	1,038	1,661
Growth (%)	(85.8)	1,172.9	25.6	60.1

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	15,448	16,962	17,954	20,317
Cash & Marketable Securities	466	333	292	303
Other Current Assets	14,983	16,629	17,662	20,014
Investments	546	556	556	556
Net fixed assets	19,642	21,404	21,060	19,888
Total assets	35,637	38,922	39,570	40,761
Current Liabilities	4,892	5,550	6,222	6,986
Total debt	17,579	19,616	18,750	17,750
Other non-current liabilities	1,713	1,440	1,440	1,440
Total liabilities	24,184	26,607	26,412	26,176
Share capital	333	333	333	333
Reserves & Surplus	11,119	11,982	12,824	14,252
Shareholder's funds	11,453	12,315	13,158	14,585
Total equity & liabilities	35,637	38,922	39,570	40,761
Capital employed	30,744	33,372	33,348	33,775

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	6,772	760	1,482	2,480
Depreciation	(1,221)	(1,464)	(1,559)	(1,672)
Chg in working capital	(6,015)	(1,066)	(401)	(1,628)
Total tax paid	(55)	(280)	(445)	(818)
Other operating activities	0	264	0	0
Cash flow from Oper. (a)	1,923	1,143	2,196	1,706
Capital expenditure	(3,340)	(3,125)	(1,215)	(500)
Chg in investments	(207)	(10)	0	0
Other investing activities	(63)	15	0	0
Others	(39)	(101)	0	0
Cash flow from Inv. (b)	(3,648)	(3,221)	(1,215)	(500)
Free cash flow (a+b)	(1,725)	(2,078)	981	1,206
Equity raised / (repaid)	0	0	0	0
Debt raised / (repaid)	2,374	2,037	(866)	(1,000)
Dividend (incl tax.)	(660)	(78)	(155)	(195)
Cash flow from fin. (c)	1,662	1,944	(1,022)	(1,195)
Net chg in cash (a+b+c)	(63)	(133)	(41)	11

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	0.4	5.0	6.3	10.0
Growth	(85.8)	1,172.9	25.6	60.1
Book NAV/Share (Rs)	69.0	74.2	79.3	87.9
Dividend/Share (Rs)	3.4	0.8	1.0	1.2
Dividend payout ratio	1,016.9	18.8	18.8	14.1
Tax	0.9	0.8	30.0	33.0
EBITDA margin	7.4	9.7	9.8	10.0
EBIT margin	3.9	6.8	7.1	7.8
RoCE	3.7	7.2	8.4	11.2
Net debt/Equity	149.4	156.6	140.3	119.6

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	142.4	11.2	8.9	5.6
PCE	7.2	4.0	3.6	2.8
Price / Book	0.8	0.8	0.7	0.6
Yield (%)	6.1	1.4	1.8	2.2
EV/Net sales	1.1	0.8	0.7	0.6
EV/EBITDA	14.3	8.7	7.2	5.5

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	0.3	2.4	2.6	3.4
Asset turnover	0.7	0.9	1.0	1.2
Leverage factor	3.9	3.1	3.1	2.9
Return on equity (%)	0.8	7.0	8.1	12.0

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