

RESULT UPDATE

MID CAP

Share Data

Reuters code	DCMC.BO
Bloomberg code	DCMS IN
Market cap. (US\$ mn)	218
6M avg. daily turnover (US\$ mn)	0.2
Issued shares (mn)	166
Target price (Rs)	79

Performance (%) 1M 3M 12M

Absolute	2	13	106
Relative	-	0	30

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	6.3	10.0
+/- (%)	25.6	60.1
PER (x)	10.0	6.3
PBV (x)	0.8	0.7
Dividend/Yield (%)	1.6	1.9
EV/Sales (x)	0.8	0.6
EV/EBITDA (x)	7.7	6.2

Major shareholders (%)

Promoters	56
FII's	1
MF's	5
BFSI's	11
Public & Others	27

Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	9,602	8,265	(13.9)	17,534	17,200	(1.9)	33,908	39,322	16.0	48,180	22.5
EBITDA	714	718	0.6	1,338	1,666	24.6	3,280	3,834	16.9	4,818	25.7
EBITDA Margin (%)	7.4	8.7	-	7.6	9.7	-	9.7	9.8	-	10.0	-
Reported PAT	71	139	94.8	120	351	192.8	1,018	1,038	1.9	1,661	60.1
Adjusted PAT	71	139	94.8	120	351	192.8	826	1,038	25.6	1,661	60.1
Adj. PAT margin (%)	0.7	1.7	-	0.7	2.0	-	2.4	2.6	-	3.4	30.7
EPS (Rs)	0.4	0.8	94.8	0.7	2.1	192.8	5.0	6.3	25.6	10.0	-

DCM Shriram Consolidated

**Maintain
Outperformer**

Price: Rs 63

BSE Index: 16,811

23 October 2009

2QFY10 Result – Future looking bright

DCM Shriram Consolidated (DSCL) results were below our expectation both at revenues and earnings front. Revenue was lower than expected primary on account of reduction in turnover in fertiliser segment (due to change in feed stock) and lower volume in traded products (due to uneven rainfall throughout the country). There was also a maintenance shutdown in fertiliser, cement and power plants at Kota which has also contributed to lower revenues than expected. The earnings were lower on account of poor performance of the Hariyali Kisaan Bazaar business and under absorption of cost due to shutdown in fertiliser, cement and power plants at Kota.

The top-line witnessed de-growth of 14% YoY at Rs 8.3 bn (reasons mentioned above). The EBITDA margin witnessed an improvement of 126 bps YoY at 8.7%, due to better realisation in sugar segment and reduction in power cost in Bharuch plant. The PAT almost doubled at Rs 139 mn owing to higher other income and lower interest expense (lower debt).

Outlook and valuation

With Indian economy showing signs of recovery, the demand for products in Chloro Vinyl segment will gain momentum resulting in better realisations. Power sales in Chloro Vinyl segment de-risk the segment to an extent. Demand for cement will remain robust considering the lined infra projects' pending completion and fresh launches in real estate sectors gaining momentum.

Sugar segment seems to have better realisations but cane supply will remain a concern and with the company not yet having contracted for raw sugar will face under utilisation of capacities in the segment. Fertiliser segment got impacted due to the uneven rainfall but it is expected that with the use of low cost feed stock (Natural Gas) the company will be able to reduce its receivables without impacting the volumes and profitability of the segment.

Hariyali Kisaan Bazaar is expected to grow at a robust pace and the management is identifying areas of cost efficiencies and implementing the same to achieve breakeven.

DSCL's planned capex is almost complete, hence the company will be streamlining its expanded capacities in order to maximise its profitability going forward. At Rs 63, the stock is trading at 7.7x FY10E and 6.2x FY11E EV/EBITDA. We maintain Outperformer.

2QFY10 key highlights

- The fertiliser segment revenues declined by 61% YoY due to reduction in realisation (down 55% YoY) on account of lower cost of LNG (a pass-through cost having no real effect on earnings) and lower volumes (22% YoY) due to plant shutdown and uneven rainfall.
- In spite of decline in volumes by 33% YoY, improved realisations (up 65% YoY) in the sugar segment resulted in a YoY revenue growth of 8.1%.
- In Hariyali Kisaan Bazaar, DSCL added six outlets during the quarter taking the total outlets to 307 across eight states. The segment continued to report losses as it will take time to stabilise the expanded outlets in the last six months or so.
- The Chloro Vinyl segment continued to be under pressure due to lower realisations in all chemical, PVC and carbide which witnessed a YoY decline of 32%, 10% and 12%, respectively, on the demand side as well only chemical and carbide witnessed a marginal increase of 9% and 2%, respectively. The PVC saw a volume decline of 79%. The swing capability in terms of power sales help the segment to sail through tough times, both volumes and realisation of power witnessed increase.
- The cement segment reported a revenue decline 14% YoY, in spite of 13% YoY increase in realisations, as volumes declined by 31% YoY.

Segmental results

(Rs mn)	2QFY09	2QFY10	YoY (%)	1H FY09	1H FY10	YoY (%)	FY08	FY09	YoY (%)
Segment revenue									
Fertilizer	2,778	1,084	(61.0)	4,794	2,348	(51.0)	7,048	7,975	13.2
Agri Input	1,254	1,048	(16.4)	2,326	2,587	11.2	1,585	4,285	170.3
Sugar	1,712	1,851	8.1	2,774	3,888	40.2	4,743	6,118	29.0
Hariyali Kisaan Bazaar	948	1,466	54.7	1,818	2,553	40.4	2,221	4,191	88.7
Chloro-Vinyl	2,149	1,873	(12.8)	4,421	3,971	(10.2)	6,940	8,407	21.1
Cement	321	275	(14.2)	605	635	5.0	1,195	1,282	7.2
Others	707	778	10.0	1,301	1,485	14.2	1,919	2,579	34.4
Total	9,869	8,375	(15.1)	18,038	17,466	(3.2)	25,653	34,837	35.8
Less: Inter Segmental	212	68	(68.0)	406	184	(54.7)	516	676	30.9
Net Sales	9,657	8,307	(14.0)	17,633	17,282	(2.0)	25,136	34,162	35.9
Segmental EBIT									
Fertiliser	79	123	56.3	180	192	6.7	197	258	31.1
Agri Input	54	38	(30.1)	112	116	3.7	73	231	217.1
Sugar	114	125	9.6	27	186	584.9	(50)	879	(1,860.7)
Hariyali Kissan Bazaar	(109)	(209)	91.9	(220)	(375)	70.8	(296)	(646)	117.8
Chloro-Vinyl	372	451	21.0	1,013	1,014	0.1	1,490	1,975	32.6
Cement	66	29	(55.8)	132	154	16.5	276	255	7.8
Others	14	11	(23.2)	6	22	267.2	(175)	(35)	80.0
Total	591	567	(4.0)	1,250	1,308	4.7	1,515	2,916	92.6
Less: Interest	338	224	(33.6)	612	511	(16.5)	847	1,468	73.3
Less: Other unallocable expenditure net off income	168	160	(4.7)	467	276	(40.9)	636	688	8.2
Add: Exceptional item	–	–	–	–	–	–	7,796	–	(100.0)
PBT	85	183	114.9	171	521	205.1	7,828	760	(90.3)
Capital employed									
Fertiliser	2,070	1,045	–	2,070	1,045	–	2,062	2,038	–
Agri Input	1,262	660	–	1,262	660	–	590	687	–
Sugar	11,609	9,118	–	11,609	9,118	–	12,544	12,070	–
Hariyali Kisaan Bazaar	4,413	5,033	–	4,413	5,033	–	2,805	4,369	–
Chloro-Vinyl	8,490	8,108	–	8,490	8,108	–	7,804	8,130	–
Cement	289	325	–	289	325	–	258	217	–
Others	1,979	1,995	–	1,979	1,995	–	1,584	2,011	–
Total	30,112	26,284	–	30,112	26,284	–	27,646	29,521	–

Return ratios

(%)	2QFY09	2QFY10	1HFY09	1HFY10	FY08	FY09
Segmental EBIT margins						
Fertiliser	2.8	11.4	3.8	8.2	2.8	3.2
Agri Input	4.3	3.6	4.8	4.5	4.6	5.4
Sugar	6.7	6.8	1.0	4.8	(1.1)	14.4
Hariyali Kisaan Bazaar	(11.5)	(14.3)	(12.1)	(14.7)	(13.3)	(15.4)
Chloro-Vinyl	17.3	24.0	22.9	25.5	21.5	23.5
Cement	20.7	10.6	21.8	24.2	23.1	19.9
Others	2.0	1.4	0.5	1.5	(9.1)	(1.4)
Total	6.0	6.8	6.9	7.5	5.9	8.4
Segmental RoCE						
Fertiliser	3.8	11.8	8.7	18.4	9.6	12.7
Agri Input	4.3	5.7	8.9	17.6	12.3	33.6
Sugar	1.0	1.4	0.2	2.0	(0.4)	7.3
Hariyali Kisaan Bazaar	(2.5)	(4.2)	(5.0)	(7.5)	(10.6)	(14.8)
Chloro-Vinyl	4.4	5.6	11.9	12.5	19.1	24.3
Cement	23.0	9.0	45.7	47.2	107.1	117.6
Others	0.7	0.5	0.3	1.1	(11.0)	(1.7)
Total	2.0	2.2	4.2	5.0	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	–	264	–	–
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	1,439	1,439	1,439
Total Liabilities	24,184	26,606	26,412	26,175
Share capital	333	333	333	333
Reserves & Surplus	11,119	11,982	12,824	14,252
Shareholders' funds	11,453	12,315	13,158	14,585
Total equity & liab.	35,637	38,921	39,569	40,760
Capital employed	30,744	33,371	33,347	33,774

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	–	264	–	–
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)	–	–
Other investing activities	(63)	15	–	–
Others	(39)	(101)	–	–
Cash flow from inv. (b)	(3,648)	(3,221)	(1,215)	(500)
Free cash flow (a+b)	(1,725)	(2,078)	981	1,206
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	160.5	12.6	10.0	6.3
PCE	8.1	4.5	4.0	3.1
Price / Book	0.9	0.8	0.8	0.7
Yield (%)	5.4	1.3	1.6	1.9
EV / Net sales	0.4	0.9	0.8	0.6
EV / EBITDA	5.6	9.1	7.7	6.2

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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