DCM SHRIRAM

Growing with trust

Background & Business

DCMSL was formed post spin-off of trifurcation of erstwhile DCM Group in 1990. Led by Chairman, Senior MD Ajay Shriram & Vice-Chairman, MD Vikram Shriram, it is an integrated business entity, with extensive & growing presence across entire Agri-value chain & Chloro-Vinyl industry. DCMSL has added innovative value-added businesses in these domains, primarily Fenesta Building Systems (Fenesta) & Bioseeds. With a large base of captive power produced at a competitive cost, DCMSL aims at maximizing value creation in Chloro-Vinyl businesses.

From	: 29-09-2014
To	: 04-02-2015
Performance	: (-45%)
Recommendation	: CLOSED

Investment Thesis

While DCMSL has strong management in place & is into diversified business segments, these are inherently commodity-driven & cyclical businesses, the future of which depends on factors which may be outside of control of management. Hence, we feel it is best to avoid investing in such a company. Some factors which lend credence to our rationale are:

a) **Fundamentals of Chloro-Vinyl business (~25% of consol sales, 50% of consol EBIT** as per 9MFY17 numbers) **volatile** (DCMSL's key Chloro-Vinyl segment continues to face headwinds such as rising input costs & declining realization. To offset these factors, company is putting in place measures such as captive power generation, cost-reduction measures, etc., these steps can only help to an extent if business fundamentals do not improve. Also, as per the management, strong recovery in this segment seems to be some time away),

b) **Performance of Farm Solutions, Fertilizers & Sugar continue to be plagued down by inadequate policy initiatives from Govt** (Co has cautiously taken decision to trim down bulk traded fertilizer business leading to lower revenues in farm solution while govt order to reduce DAP/NPK prices in previous quarter has led to some inventory related losses),

c) **Cement & Fenesta are expected to be more stable** (Cement & Fenesta mirror macro economic growth & hence are expected to be less volatile).

Outlook

There are inherent problems in many of DCMSL's business segments, such as – dependence on commodity cycles which are often driven by global factors, cyclical nature of businesses & heavy Govt regulation in certain sectors w.r.t. input as well as output costs. These are factors which are out of control of the management & hence can be offset only partially by measures such as cost control, price hike, capacity expansion. Unless key factors such as demand-supply conditions, input prices and pricing flexibility improve, the segment cannot progress significantly. Only cement and Fenesta are business segments, which though cyclical, are the ones where the company can exert price influence or control input costs. Hence, we feel that the stock does not satisfy our internal criteria of a 3 – 5 year holding period for generating consistent wealth. Instead, we prefer to move to other companies / stocks where business modes are more predictable and resilient to macro-economic cycles.

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