Indiabulls VENTURES

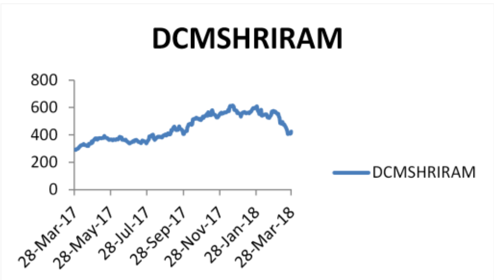
Rating:	**BUY**
Ticker:	DCMSHRIRAM
CMP:	Rs. 424
Target:	Rs. 576
Upside:	36%

Key Stock Data	
Sector	Diversified
No. of shares	16.32 Crs
FV (Rs)	10
MCAP (Rs)	7030 Crs
MCAP ($)	108 Crs

Key Financials (Rs. in Crs)

Y/E March	FY17 A	FY18 E	FY19 E
Revenue	6163	7608	9510
EBITDA	817	1467	1902
PAT	552	900	1046
EPS /sh.	33.97	55.13	64.10
BV /sh.	155	189	244
P/BV (x)	2.74	2.25	1.74
PE (x)	12.48	7.69	6.61
ROE (%)	22%	29%	26%

Shareholding Pattern	
Promoters	63.88%
FIIs	3.21%
DIIs	17.15%
Others	15.76%



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DCM Shriram Ltd. - DCMSHRIRAM

3QFY18 Result Update

The Company reported decent set of 3QFY18 numbers on all counts both on a yearly as well as on a quarterly basis. The topline of the company grew by 23% Y-o-Y and 11% Q-o-Q to Rs. 1,801 Crs in 3QFY18 as against Rs.1,459 Crs in 3QFY17. EBITDA for the quarter grew by 74% Y-o-Y and 13% Q-o-Q to Rs. 347 Crs in 3QFY18 as against Rs.199 Crs in 3QFY17 and Rs. 306 Crs in 2QFY18. PAT for the quarter grew by 57% Y-o-Y and 24% Q-o-Q to Rs. 213 Crs in 3QFY18 against Rs. 136 Crs in 3QFY17 and Rs. 172 Crs in 2QFY18. EBITDA Margin increased by 564 bps Y-o-Y and 39 bps Q-o-Q to 19.28% in 3QFY18 as against 13.64% in 3QFY17 and 18.89% in 2QFY18. PAT Margin increased by 251 bps Y-o-Y and 121 bps Q-o-Q to 11.83% in 3QFY18 as against 9.32% in 3QFY17 and 10.62% in 2QFY18.

Management Guidance

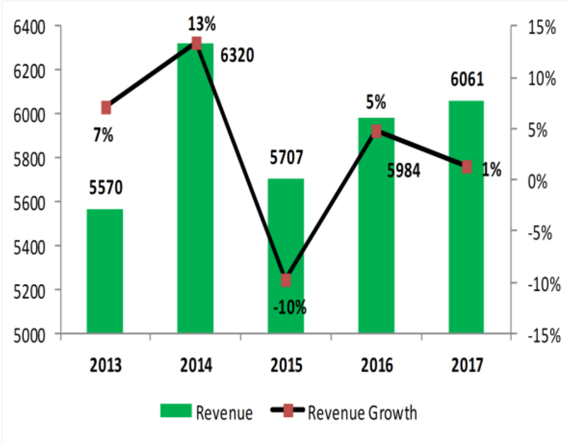
1. The company expects to sustain the trend of high capacity utilization in its Chloro Vinyl Segment.
2. The price of Chlorine has been trading in the negative territory, but the management stated that they have attained break-even and prices have improved recently.

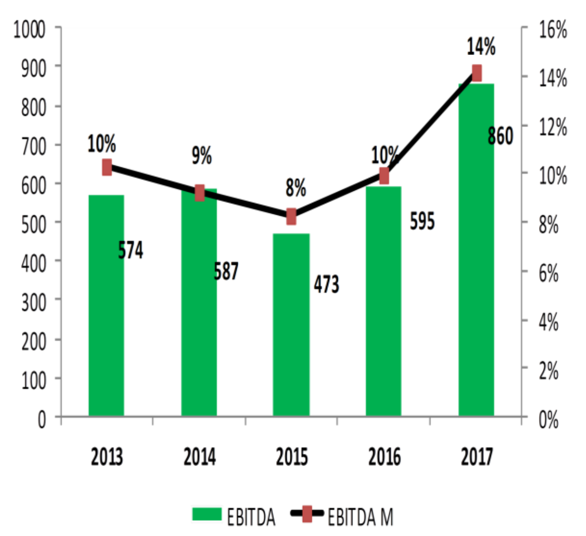
Outlook & Valuations

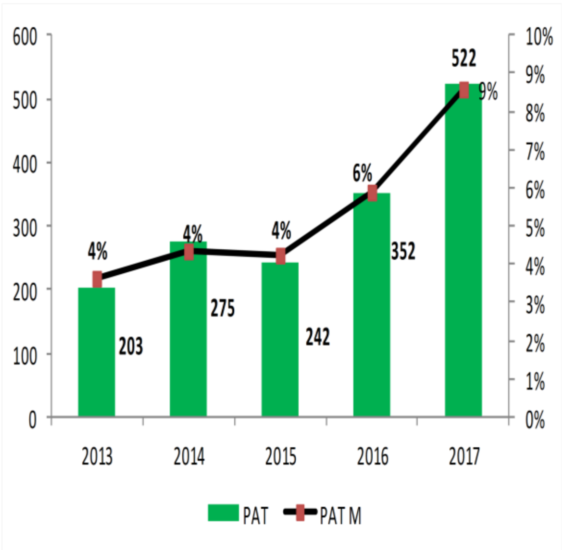
DCM Shriram Ltd is a diversified company with business in agri, chemicals, plastics, cement, textiles and energy services. The company's Chloro Vinyl business which contributes highest to the company's total revenue is growing at a CAGR of 20% and going forward the management is confident of maintaining its current margins. Given the management's focus of infusing growth and maintaining its high margins, we feel the stock is a BUY at CMP. The company is currently trading at mere 7x FY 19 PE. We would like to allot a PE multiple of 8x on an FY19E EPS of Rs.64.10 to arrive at a Target Price of Rs. 576 per share.

Quarterly Financial Highlight Table (Rs. In Crs)

Particulars	3QFY18	2QFY18	3QFY17	Q/Q	Y/Y	FY2017
Revenue	1801	1620	1459	11%	23%	6163
EBITDA	347	306	199	13%	74%	817
PAT	213	172	136	24%	57%	552
EPS	13.14	10.59	8.41	24%	56%	33.97
EBITDA M	19.28%	18.89%	13.64%	39 bps	564 bps	13.26%
PAT M	11.83%	10.62%	9.32%	121 bps	251 bps	8.96%







Investment Rationale

1. Chloro – Vinyl segment continue to shine

Consolidated Revenues from the segment grew by 51% Y-o-Y to Rs. 577 Crs in 3QFY18 as against Rs. 384 Crs in 3QFY17.The segment's PBT rose by whopping 166% Y-o-Y to Rs. 242 Crs in 3QFY18 as against Rs. 91 Crs in 3QFY17. Its PBT Margin increased by 1450 bps to 41.9% in 3QFY18 as against 27.4% in 3QFY17. The management has expanded a chemical plant at Bharuch which has now achieved 100% capacity utilization levels. The production volumes at Bharuch Plant registered at growth of 42% Y-o-Y, whereas the chemical plant at Kota remained steady during the quarter. Due to healthy demand growth, particularly for Chlorine, favorable soda prices which is moving as per the international trends and various expansion projects which is undergoing, and along with the higher base, the management is confident on achieving 20% CAGR growth over the next 2 yrs. and also aims to maintain margins at current rate.

2. Agri - Input Business segment to lead the 2nd phase of growth

The Agri business segment is further divided into 3 segments, Shriram Farm Solutions, Bioseeds and Fertilisers, contributes 33% of the company's total revenue during 3QFY18. Shriram Farm solutions reported a growth of 27% Y-o-Y to Rs. 316 Crs in 3QFY18 as against Rs. 248 Crs in 3QFY17 whereas PBIT grew by 74% Y-o-Y to Rs. 33 Crs in 3QFY18 as against Rs. 19 Crs in 3QFY17. The chief reason for expansion in earnings is due to higher sales from value added inputs and the management is confident of achieving higher growth from the same division.

3. Attractive Valuations

DCM Shriram is trading at very attractive valuations as compared to its peers. The PE of the company stands at mere 7X FY19E. It is one of the most cheaply valued companies in the industry with industry PE trading at 22x on an average for FY19E. The primary reason for such cheap valuations is due to its higher growth rate. The management is very confident of achieving a CAGR growth of 20% on its bottom-line and sustaining its margins at current rate despite the higher base.

DCM Shriram Ltd. is a leading business conglomerate with a group turnover of Rs. 6,164 Crs.

The Urea plant in Kota has a Production capacity of 379,000 TPA & Chlor- Alkali capacity of 4, 50,000 TPA in both Kota & Bharuch.

The company's Chloro Vinyl business which contributes highest to the company's total revenue is growing at a CAGR of 20%.

The management is also confident of maintaining its margins at the current run rate.

The company is currently trading at mere 7x FY19E PE whereas it's industry PE is trading at 22x on FY19E.

Company Background

DCM Shriram Ltd. is a leading business conglomerate with a group turnover of Rs. 6,164 Crs. DCM Shriram, a spin-off from trifurcation of the reputed erstwhile DCM Group in 1990 with a highly professional executive team. DCM Shriram has manufacturing facilities of Fertiliser, Chloro Vinyl & Cement in Kota (Rajasthan) and of Chlor- Alkali in Bharuch (Gujrat). The company operates coal-based captive power, facilities - in Kota rated at 133 MW and in Bharuch at 115 MW (Gujrat). The Urea plant in Kota has a Production capacity of 379,000 TPA & Chlor- Alkali capacity of 4, 50,000 TPA in both Kota & Bharuch.

Risk & Concerns

1. Agriculture business is highly dependent on Monsoon.
2. The company's Sugar business is highly dependent on Government's policies and reforms. Slow reforms taken by the government will have an adverse effect on the company's sugar business.
3. Any increase in Raw Material and Power cost for Chloro Vinyl business will be a risk to the company.

Outlook & Valuations

DCM Shriram Ltd is a diversified company with business in agri, chemicals, plastics, cement, textiles and energy services. The company's Chloro Vinyl business which contributes highest to the company's total revenue is growing at a CAGR of 20% and going forward company continuous to expect 20% CAGR growth from this business. The management is also confident of maintaining its margins at the current run rate. The company is continuously focusing on increasing its capacity additions in chemical and sugar business to maintain its CAGR of 20% over a period of next 2-3 years. Given the management's focus of infusing growth and maintaining its high margins, we feel the stock is a BUY at CMP. The company is currently trading at mere 7x FY19 PE. We would like to allot a PE multiple of 8x on an FY19E EPS of Rs.64.10 to arrive at a Target Price of Rs. 576 per share.

Analyst Stock Rating	
Ratings	**Expected absolute returns over 12 months**
BUY	>15%
HOLD	10- 15%
REDUCE	<10%

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Indiabulls Ventures Limited is a SEBI Registered Research Analyst having registration number: INH100004906

Disclosure:

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