DCM SHRIRAM

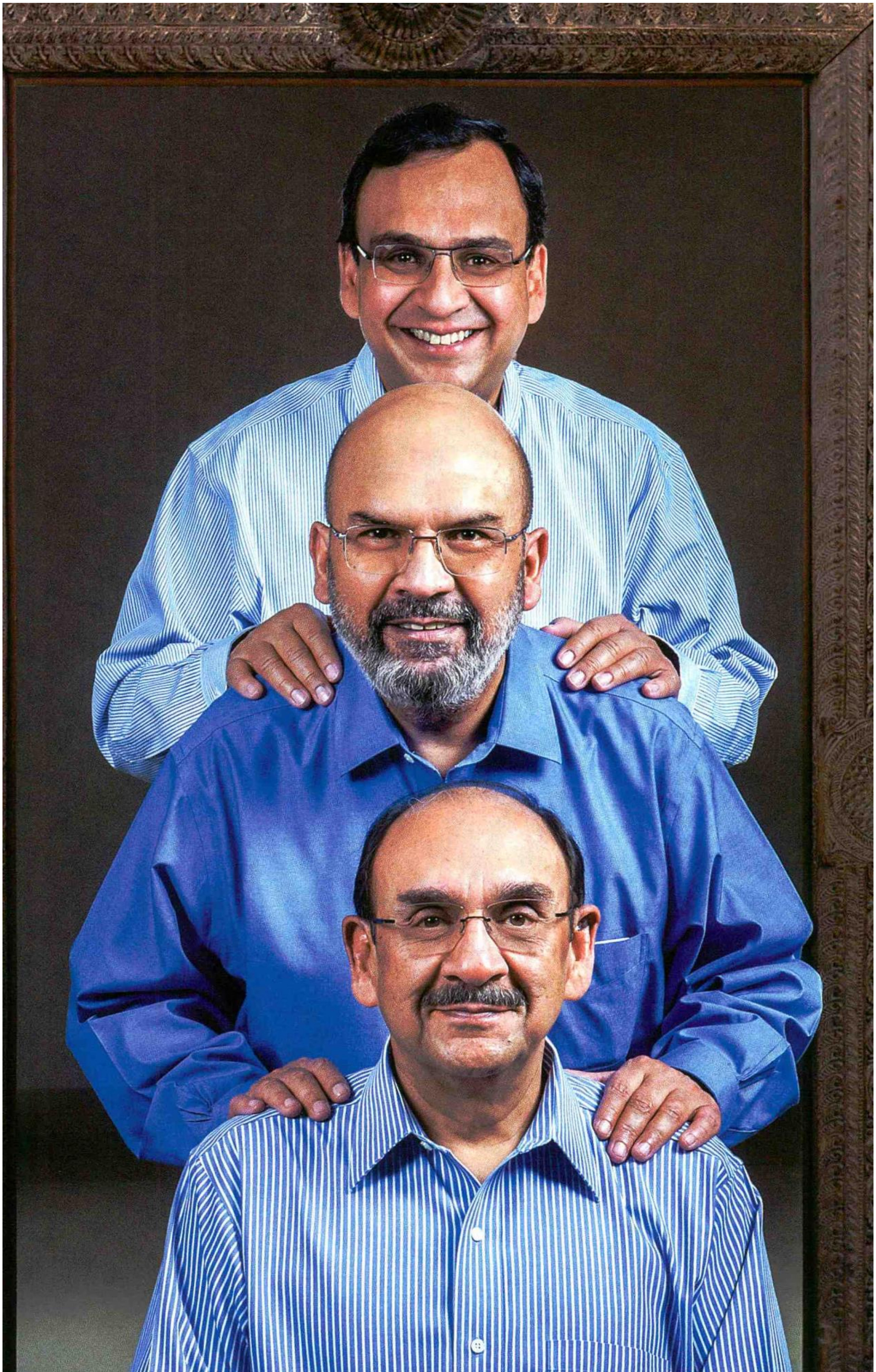
LOW ON SUGAR

Delhi-based industrial group DCM Shriram Consolidated is hedging its bets by not putting all its business eggs in one basket.

By **Debabrata Das and Ashish Gupta**

Photograph by **Sanjay Rawat**

From top: Brothers Ajit, Vikram, and Ajay Shriram



Ask any Delhiite to name some of the city's big business families and chances are that the Shri Ram family will figure on the list. After all, Lala Shri Ram was one of the city's most iconic entrepreneurs who built the famous DCM group in the early 20th century and occupied a place in the capital's business pantheon long before the Nandas, the Singhs, and the Thapars made their names and fortunes.

Not many may be familiar with the group's list of firsts. It set up north India's first textile and fertiliser factory in the private sector; formed one of the earliest joint stock companies in India; and also roped in global automobile player Toyota as a business partner way back in 1983. But what they will certainly know is the group's contribution to building some of the city's landmark institutions: the Shri Ram Centre for Performing Arts, the Shri Ram College of Commerce, Lady Shri Ram College, and the Shri Ram Centre for Industrial Relations and Human Resources.

But in any family business, conflict and splits are inevitable. And the Shri Ram family was no exception. Today, the group is a pale shadow of what it was in its heyday. When Lala Shri Ram, the original promoter of the DCM group, died in 1963, the reins of the business were given to his two sons—Bharat Ram and Charat Ram—since his third son, Murli Dhar, had died in an airplane crash a few years ago. Murli Dhar used to run a textile mill in Lyallpur, now in Pakistan.

After the division, the brothers were at loggerheads most of the time. So, after years of boardroom battles, the DCM group was finally carved up in 1990 into four divisions—Bharat Ram and his sons got DCM Ltd; DCM Shriram Industries went to Murli Dhar's son, Bansi Dhar, and his heirs; DCM Shriram Consolidated went to Murli Dhar's other son, Shri Dhar, and his heirs—Ajay, Vikram and Ajit; and Shriram Industrial Enterprises went to Charat Ram and his sons.

It wasn't a happy situation, because Ajay, Vikram and Ajit—Lala Shri Ram's great-grandsons—didn't know much about the businesses they'd inherited. To make things worse, Shriram Fertilisers and Chemicals, Shriram Cement Works, Swatantra Bharat Mills, and DCM Silk Mills, the companies that came with the division, weren't exactly in the pink of health. "We were dead scared when this business was handed to us," admits Vikram, the 59-year-old vice-chairman and managing director of DCM Shriram Consolidated (which we will refer to as DCM Shriram for this story).

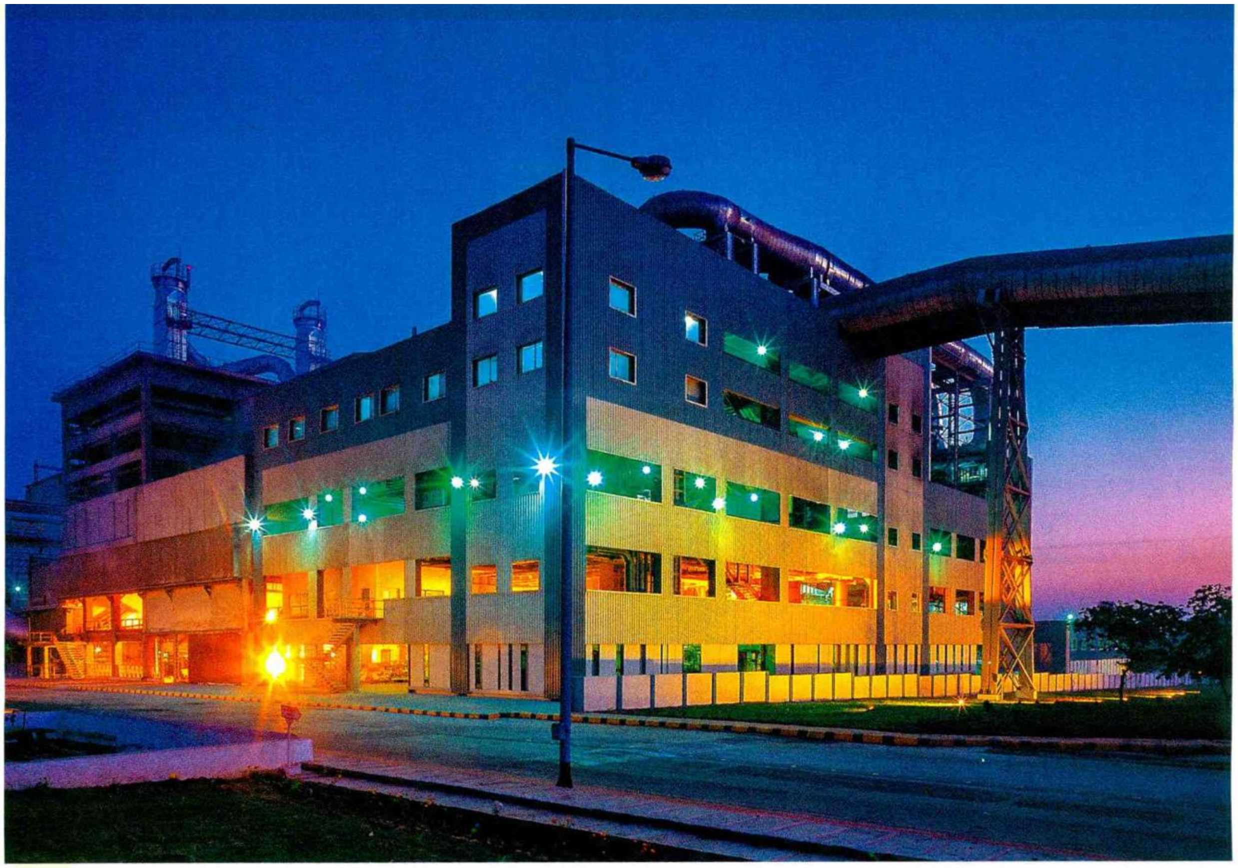
Ajay, the oldest of the three and chairman and senior managing director of DCM Shriram, says Swatantra Bharat Mills, a textile mill on a prime piece of real estate in the heart of Delhi, had 112 acres of land but was making a loss of Rs 20 crore a year from the mid-1970s. "We had zero idea about fertilisers, nearly no idea about power plants," the 64-year-old patriarch of the group says. "So, we were really scared."

The brothers knew they had an arduous task ahead. Vikram, seen as a turnaround artist, was handed the tough job of reviving the businesses. After setting up a professional board and undertaking a painful restructuring programme—which included layoffs and closing down of Swatantra Bharat Mills and DCM Silk Mills—the businesses began to stabilise. "I had 10 years of experience in turning around companies and knew how to deal with lawyers and labour. So that helped a bit," says Vikram.

By the year 2000, DCM Shriram's net profit had jumped to Rs 29.5 crore on gross sales of Rs 934.6 crore and the company was on a strong growth trajectory. In the past 27 years, the bottom line has grown by 18% and the top line by 19% a year, says Ajay. More specifically, its net worth jumped by 63.5% between FY15 and FY18. Its net profit went up by 217% in the same period, and it has also pared its debt-equity ratio from 8.1 in the early 1990s to 0.3 today. Its operating profit has grown from Rs 12 crore to Rs 1,200 crore in the past 27 years.

DCM SHRIRAM BROADLY operates under three heads: the agri-rural business, the chlor-vinyl or chemicals business, and the value-added business. The agri-rural business comprises fertilisers, sugar, hybrid seeds, and the retail arm, Hariyali Kisaan Bazaar. Through the chemicals business, the company offers a wide portfolio of basic chemicals and industrial raw materials like chlor-alkali, calcium carbide, caustic soda, and various polyvinyl chloride (PVC) compounds. The waste product of the calcium carbide business powers a 400,000 tonne per annum cement plant. The value-added business is basically DCM Shriram's consumer-facing brand, Fenesta, that sells doors and windows made of unplasticised polyvinyl chloride or uPVC.

How did the brothers do it? The company's growth strategy was based more on forward-and backward integration within its existing businesses rather than taking the mergers and



The calcium carbide plant at DCM Shriram's manufacturing facility in Kota, Rajasthan.

acquisitions path. But any business needs to diversify over time. DCM Shriram, too, stepped on the diversification road and entered the sugar business in 1997 when it set up its first sugar manufacturing unit in Uttar Pradesh. It then went on to establish at least three more plants over the past 20 years. At the end of FY18, the company worked with 150,000 farmers and crushed around four million tonnes of cane annually from four manufacturing units.

Lately, the group's sugar business has been underperforming. Plagued by a glut in sugarcane production in the country, falling prices both in the domestic market—sometimes even lower than production costs—and overseas, the sector continues to bleed despite the government's Rs 8,500 crore relief package and other sops, including a hike in ethanol prices. "The Indian sugar industry has been grappling with falling prices amid a supply glut that eroded profit margins and liquidity of sugar mills and resulted in mounting cane dues," says Khushboo Lakhotia, senior analyst at credit rating firm India Ratings & Research.

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Vikram Shriram, vice-chairman and MD, DCM Shriram

At the end of FY18, sugar accounted for 28% of the group's consolidated revenue of Rs 7,006 crore—the second highest of all its businesses. However, the business contributed only 8.6% to the company's overall operating profit of Rs 1,096.3 crore in FY18. Ajay blames government policy for the woes of the sugar industry. "It is governed completely by the political decision-makers," he says.

Managing the vicissitudes of commodity prices is an art the brothers have mastered. The company spreads its risk by being in diverse businesses. So, while sugar might not be doing well today, the downturn is balanced by a boom in its older chemicals business. "We keep all the different verticals that we operate in one balance sheet in order to hedge the volatility in various businesses. So, when sugar is down, it is our chemicals business that keeps our profitability and cash flowing in," says Vikram.

The numbers are telling. DCM Shriram's chemicals business saw its total operating profits more than double to Rs 817.5 crore in FY18, or nearly 75% of the company's total operating profit. "What helped the turnaround in the fortunes of the chemicals business," argues Ajay, "is our focus on quality. Our philosophy has always been to be world class, which has helped us compete with the best in the world. The good thing is that the pressure of competition has helped us become more efficient and provide better products to our customers."

This isn't empty rhetoric. Despite the fact that the import duty on chemicals has come down to zero from 60-70% a decade ago, the company has not lost its market share. Of course, the fact that there is buoyancy in the chemicals and plastics business has also helped.

IN ORDER TO REDUCE ITS overdependence on sugar and create a more sustainable portfolio of industries, the firm's recent investments and those on the drawing board are geared more towards other businesses. Ajay says the company has invested almost Rs 2,000 crore in the past two-three years on expanding its caustic soda plant in Bharuch, Gujarat, modernising a chemical plant in Kota, Rajasthan, and setting up an ethanol distillery.

As part of its expansion of the chemicals business, it is increasing caustic soda production by 500 tonnes per day at its plants in Kota and Bharuch. But it hasn't ditched its sugar business entirely. It is also expanding sugar production by 5,000 tonnes per day to support its distillery plant. "There is also an approved Rs 1,100 crore investment plan, that still remains to be used," adds Ajay.

Diversifying into ethanol production (an alternative fuel for the transportation sector) is a great example of forward integration. Made from molasses, a by-product of sugarcane, it can not only reduce India's mounting crude import bill, especially in times of high crude oil prices, but also reduce the current sugarcane glut in the country. And with the government raising the price of ethanol to be bought by public sector oil companies from Rs 40.85 per litre to Rs 43.70, it will give the company added incentive to increase ethanol production.

The latest example of integration is Fenesta. Though it was launched in 2002, it is only in the past four to five years that Fenesta has become an important business unit. The Fenesta business has been growing at 25-30% every year for the past four years and it is now becoming a major income generator for the company. In FY18, Fenesta's revenue stood at Rs 332.4 crore with pre-tax profit at Rs 30.5 crore. "On the business strategy side, our aim is to hedge DCM Shriram against the fluctuations of one particular industry. That is why we will keep investing in greater integration and expansion of all verticals," says Ajay.

217%
Rise in net profit of DCM Shriram between FY15 and FY18

But it's not that the company hasn't made mistakes. It is the first to admit that the Hariyali Kisaan Bazaar, a large-format, one-stop shop for farmers, was a disaster. These stores provided all kinds of agricultural inputs for improving the productivity and profitability of farmers. Vikram believes that even today, retail is a long-term game and involves a lot of cash burn because logistics costs are very high in rural areas. "What we didn't realise was that in every shop we had to put up gensets, since our shops were computer-controlled and power was a problem in the rural areas. We were spending almost Rs 7-8 crore a year only on diesel," he says, adding that they are slowly downing the shutters.

The other challenge before the company is its bio-seeds business. The criticism around GM (genetically modified) crops and its properties means that the company has had to pull back from further experimentation in producing high-quality, disease-resistant seeds. "We have been blocked from doing our own research despite having our own GM lab and a bio-seed lab because we were denied permission for field testing," Ajit, joint managing director of DCM Shriram, points out. "By denying our farmers the benefits of GM crops, we are actually playing into the hands of the multinational companies. When we are in dire need, the same MNCs will raise prices and sell to us."

"We are in commodities, there will be ups and downs, and we have to manage it."
Ajay Shriram, chairman and senior MD, DCM Shriram

What will the DCM Shriram of the future look like?

"We are debating this point at the board level all the time," says Ajay. "We are not in a rat race. We do not want to give grand projections of doubling [revenue] in two years or tripling in five years. We are in commodities, there will be ups and downs, and we have to manage it. We also want to be very cautious in taking on debt, because interest has no holidays and no weekends." ■