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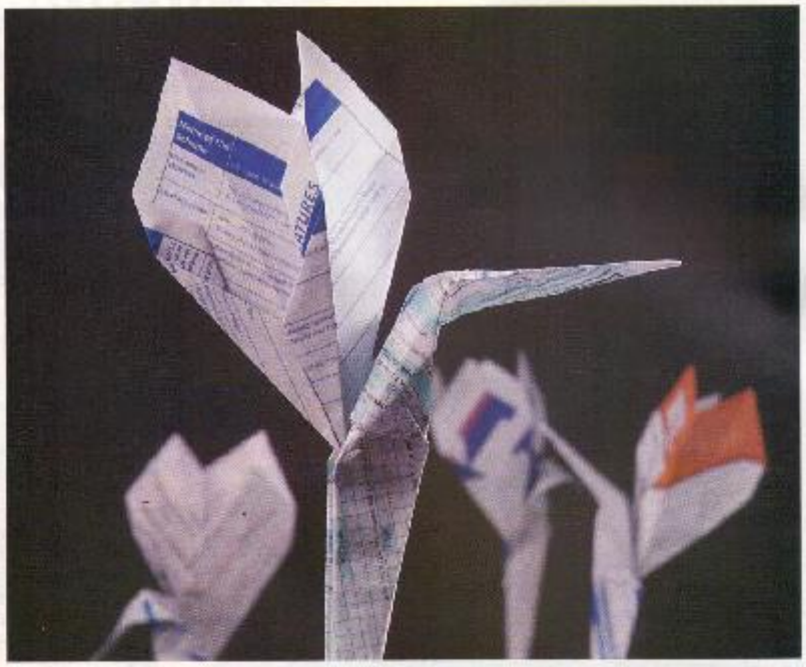
MUTUAL FUNDS

SIPPING SUCCESS

The industry is growing at a brisk pace with equity back in focus



SURVEY

CORPORATE REPORTS

Ajay, Ajit, Vikram: taking their rich legacy forward

Blazing its own trail

A fulfilling silver anniversary for an over-one-century-old company

It has been a remarkable 25 years for DCM Shriram Limited (DSL), the New Delhi-headquartered conglomerate with a legacy spanning 107 years.

DCM Shriram was spun out of a four-way reconstitution in 1990 of the Shri Ram family's businesses that had their origin in the textile mill of Lala Shri Ram, the patriarch. The late Shri Ram, whose 132nd birth anniversary was commemorated on 27 April, was a 25-year-old youth of modest means in 1909 when he joined the Delhi Cloth & General Mills Co, northern India's first textile factory.

The mill had come into being at the initiative of his *tau* (father's elder brother), Lala Gopal Rai, a simple accountant in a firm of bankers and realtors, who had neither money nor knowledge of machines, but a big dream for a cotton mill in his city of Delhi. Struck by Gopal Rai's idea, a group of city businessman met in 1888 at the house of Rai Bahadur Lala Ram Kishan Das, a meeting that led to the registration of the mill in 1889. Rai Bahadur was made its chairman and Gopal Rai tasked with the maintenance of accounts. Gopal Rai's passing in 1906 paved the way for his nephew to join three years later.

Having an entrepreneurial pluck, Shri Ram soon acquired the mill, renamed it Delhi Cloth Mills (DCM), and within years diversified his textile business into a blue chip industrial empire, DCM Ltd, straddling sugar, chemicals, vanaspati, pottery, fans, sewing machines, electric motors and capacitors. Knighted by King George VI in 1941 for his high enterprise, Sir Shri Ram valued education and culture alongside business, establishing the prestigious Shri Ram College of Commerce in 1932, Shri Ram Institute for Industrial Research in 1950 and Lady Shri Ram College in 1956, as also the Shri Ram Centre for Performing Arts, a landmark in New Delhi's theatre circuit. Music was his passion and that led him to learn under Pt Ravi Shankar.

DCM charted spectacular growth and soon became a household name and a trusted brand in the country, as also one of the earliest joint stock companies and among the top five private enterprises in India by 1970. Unfortunately it was also riven by one of the earliest fraternal conflicts of corporate India, with fissures cleaving the second generation itself, led by Shri Ram's sons Bharat Ram and Charat Ram, their third brother, Murli Dhar, having died, along with his wife, in an air crash in 1949. This debility exposed the company in 1986 to one of the earliest hostile takeover bids in the country, by London-based businessman Lord Swraj Paul, who backed off only at the intercession of then Prime Minister Rajiv Gandhi.

Under a Scheme of Arrangement approved by its shareholders and creditors, and also by a Delhi High Court order, DCM Ltd on 1 April 1990 stood quadri-partitioned into DCM Ltd, DCM Shriram Industries Ltd, DCM Shriram Consolidated Ltd, and Shriram Industrial Enterprises Ltd. As per the scheme, DCM Ltd's shareholders were allotted shares in DCM Shriram Industries and Shriram Industrial Enterprises in the ratio of one share in each of the four companies for every four shares held by them in DCM Ltd as on 21 September 1990. At the time of this court-monitored division, the turnover of the spent force that DCM Ltd had become by then was ₹774 crore, with ₹50 crore of PBDIT (profit before depreciation, interest and taxes).

Lala Shri Ram's great grandsons, Ajay, Vikram and Ajit Shriram, are now taking his rich legacy forward through the part of the business that was parcelled out to them, namely, DCM Shriram Consolidated Ltd (DSCL), which they renamed DCM Shriram Ltd (DSL) in 2014. Ajay, at 62 the oldest of the fraternal troika, is now chairman & senior managing director, while Vikram is 58 and vice-chairman & MD, and Ajit Shriram, 49, & joint MD.

The businesses they acquired were Shriram Fertilisers & Chemicals, in Kota, Rajasthan, which produced urea, plastics, chlor-alkali and dedicated power, Shriram Cement Works, also in Kota, Swatantra Bharat Mills, in Tonk, Rajasthan, and DCM Silk Mills, in New Delhi. At the time of the division, some observers felt that this branch of the family was left with businesses that were struggling. With textiles on the decline, the silk mill, with its 38-acre property 5 km from Connaught Place and equally

Water Reservoir Created. DCM Shriram. Kota

owned with S.P. Lohia (of Indonesia-based PT Indo Rama), was sold in 2007 to DLF, India's largest property developer, for ₹1,675 crore, DSCL getting half the proceeds. Swatantra mill was sold in 2014 for ₹17.12 crore.

Between 1990 and 2000, DSCL added to its portfolio Shriram Alkali & Chemicals, in Bharuch, for producing chlor-alkali, Shriram Environment & Allied Services, in Gurgaon, Ghaghagra Sugar, in Uttar Pradesh's Lakhimpur Kheri district, followed by three more sugar units in the adjacent Hardoi district, and DSCL Energy Services Co Ltd, New Delhi, for optimising energy usage of businesses, industry and institutions, and for providing engineering and project management services for biomass and conventional fuel-based power plants.

Following a series of divestments, and mergers and acquisitions over the years, DSCL, and then DSL, flourished as an integrated business conglomerate, with an extensive and growing presence across the entire agri value chain and chlor-vinyl industry. The brothers were amongst the first to set up a chain of rural shops in India and DSL's present portfolio comprises primarily two types of businesses, one being Agri-Rural, served by a rural retail chain and spanning sugar, basic nutrients like urea and other fertilisers, speciality nutrients, hybrid, transgenic and open-pollinated (OP) seeds, and GM (genetically modified) crops, and crop care chemicals like insecticides, herbicides and fungicides. The second is the Chlor-Vinyl Business that produces caustic soda, calcium carbide, chlorine, vinyl resins, vinyl compounds, and cement.

The company has added value businesses to these domains, such as Hyderabad-based Shriram Bioseed Genetics India Ltd, with overseas offices in Vietnam, Indonesia, the Philippines and Thailand. Another is Fenesta Building Systems, the country's best selling UPVC (unplasticised polyvinyl chloride) windows and doors brand that offers complete solutions from design and fabrication to on-site installation. It has fabrication units at Bhiwadi, in Rajasthan, Bangalore, Mumbai, Hyderabad and Chennai.

Divestments and mergers

DCM Shriram's manufacturing facilities of fertiliser, chlor-vinyl and cement in Kota are served by a 133 MW coal-based captive power plant, with another of 55 MW operating in Bharuch. Urea had its upas and downs. Kota has a urea capacity of 379,000 TPA (tonnes per annum), with a 700 TPD (tonnes per day) ammonia plant alongside, ammonia a feedstock for urea manufacture. Chlor-alkali capacities total 700 TPD in both Kota and Bharuch. The four sugar factories, which source cane from about 150,000 farmers, have a combined installed capacity of 33,000 TCD (tonnes crushed daily), the bagasse yielded firing a captive plant of 94.5 MW capacity.

In late 2002, the company divested its remnant shareholding in all its Shriram group peers. The final offload was from the Arun Bharat Ram-owned industrial yarn and fabrics major, SRF, or Shri Ram Fibres Ltd, where it sold off its residual 1.5 per cent stake to SRF's investment company. DSCL originally held 4 per cent, its biggest shareholding in a Shriram group company. Today in DCM Shriram, the promoters and their groups have a combined stake of 63.88 per cent, public shareholding being 34 per cent, and shares held by employee trusts, two per cent. The group has a total workforce of around 5,000 across all locations, apart from a team of about 200 researchers in the bioseed business.

Ajay Shriram is gratified that his company has abided by its philosophy of steady growth over the years. The revenue of ₹360 crore that DSCL registered a year after the division, in 1990-91, has now (in 2015-16) surged over 16 times to ₹5,841 crore for DSL, while its PBDIT has risen almost 24 times, from ₹23 crore to ₹544 crore. Net worth has spiralled from ₹27 crore to ₹2,096 crore – up from ₹1,859 crore in 2014-15. The company's market capitalisation stands at ₹3,121 crore, while its share price is around ₹193, with earnings per share being ₹21.46. Over the previous 52 weeks, the share price has swung from a low of ₹100 on 5 October 2015 to ₹203 on 30 May 2016.

"By our corporate philosophy, I think I can say this for all of us, that we have done well, that we have grown in a steady, sound, structured and planned manner, we sleep well at night, and do not have the kind of problems many groups that we read in the newspapers about have, such as overwhelming debts that give sleepless nights," says Ajay Shriram. "It is easy to secure loans, but the interest meter never stops ticking, and the borrower has to deliver results, meet commitments, and endeavour to realise the full scope of any proposal he takes to the board."

Manufacturing Complex, Kota

New benchmarks

Having grown in the shadows of legends of his family, he acknowledges that his company has made mistakes, "which is part of any business learning", but maintains that unless one learns and grows out of such errors, success will be elusive. "We desire to be financially sound, not performing for others, but for our own selves and for our board of directors," he mentions. "We pride ourselves at being a sound group with businesses that give consistent returns that are satisfactory for all stakeholders, including shareholders." Vikram Shriram interjects, "For a quarter of a century, we have set new benchmarks of excellence and crossed many a milestone, the company having had the good fortune of building on the rich legacy of Delhi Cloth Mills." He adds that the step by step journey has attained a CAGR of 17 to 18 per cent.

Ajay Shriram reminisces that when their part of the business was bequeathed to them, he and his brothers were the youngest and least experienced of the Shriram family. He was 36 then and Vikram Shriram, 32, with then 23-year-old Ajit Shriram entering the business later. Their father, Shri Dhar, who had retired years earlier to settle in Kolkata, had left it to his brother Bansi Dhar and cousins to give his sons a fair deal. With their uncle, SRF chairman Arun Bharat Ram, now 74, coming on board to mentor them – he is very close to the three brothers and still on the DDSL board – and some other industry veterans too joining as directors, the brothers managed to steady their business.

They convinced Mantosh Sondhi, an early 'technocrat' secretary (of steel, coal and mines) to the Government and founder of the heavy vehicles factory at Avadi and of Bokaro Steel, to become the chairman. "He helped us lay down the processes and systems that we are still following," Ajay Shriram notes. Other board members included D.N. Davar, then chairman, Industrial Finance Corporation of India, and S.S. Baijal, former chairman, ICI group of companies.

The board formed an arbitration committee of Sondhi and Baijal to address any vexatious issue that might crop up between any of the companies. "Whatever happened, happened in the past," maintains Ajay Shriram. "The restructuring that took place in DCM and the Shriram family was one of the most respectful, dignified and transparent ways of restructuring compared to many other companies." Incidentally, Arun Bharat Ram, a past president of the Confederation of Indian Industry (CII), had drafted a 'family constitution' that delineates a charter for the Shri Ram family for ensuring harmony within the fold.

DCM has charted many an individual success story, with its earlier employees having been IT entrepreneurs Shiva Nadar and Ashok Soota, and even table wizard Zakir Hussain. Soota, the 73-year-old executive chairman of the next generation digital engineering company, Happiest Minds, and one widely recognised as a pioneering leader of India's IT industry, had joined DCM in 1965 as a 22-year-old senior management trainee. Following his stint there, he led the growth of Wipro's IT business from $2 million to $500 million, before setting off on his own to found IT and outsourcing company Mindtree in Bangalore. He created Happiest Minds, also in Bangalore, after stewarding Mindtree through a successful IPO.

"I joined DCM at a time it was the fifth largest company in India and ran probably the best executive training programme in the country," he recalls. "The Shriram group comprised primarily two halves, led by Bharat Ram and Charat Ram respectively, and the working style and cultures were dramatically different in the two parts." At the end of the training year, he was deputed to Charat Ram's division where he would spend the next 19 years. He soon became the youngest general manager, Usha Fan Industries, the single largest fan manufacturer in the world at that time. In 1978, he became CEO, Shriram Refrigeration, where he turned around the company which had been unprofitable for four straight years. He made it profitable in the first of the six years he was its CEO.

> As a CEO's skills are fungible, it gave me confidence that having been a successful ceo in one industry, I could replicate the success in the IT industry too.
> Ashok Soota

Excellent leaders

"Charat Ram was amongst the best developers of managers and, during my career, I got several interesting career assignments, including a two-year stint in Usha, Sri Lanka, which gave me a broad range of responsibilities at a young age," remarks Soota. "I continue to be in close touch with all the leaders, who inherited parts of the partitioned Shriram group." He, Arun Bharat Ram and Ajay Shriram also have a close association through CII, as all three are its past presidents. "This generation of leaders have all demonstrated high levels of competency and taken their respective parts of the old empire to greater heights, with some obviously more successfully than others," he notes.

Asked how his DCM experience pitchforked him to his IT career, Soota maintains that being propelled into a CEO role by the age of 34 gained him a senior management perspective early in his career.

"As a CEO's skills are fungible, it gave me confidence that having been a successful CEO in one industry, I could replicate the success in the IT industry too, though I had no experience of it when I joined Wipro," he recalls. "There was a lot of focus on R&D in Shriram Refrigeration, and the ability to derive value from R&D was a key factor for success in Wipro, where we designed our own computers; and finally, Charat Ram was entrepreneurial and some of that capability must have got transmitted to help me in the entrepreneurial stage of my career." He adds that DCM Shriram and SRF are probably the most successful of the quadrisected parts.

Though the chemicals and agro businesses tend to be cyclical in nature, DCM Shriram has managed to battle its way through the country's drought-riddled farmscape to emerge with stable net revenues of ₹5,841 crore for 2015-16, from ₹5,639 crore the previous year. Similarly, its PBDIT rose 21 per cent to ₹544 crore from ₹450 crore, while PBIT increased to ₹445 crore from ₹340 crore, and PAT, by 41 per cent to ₹297 crore from ₹211 crore. Net debt stood at ₹1,057 crore – up from ₹688 crore the previous year, as a result of the ongoing capacity expansion in chlor-alkali and sugar businesses, and higher subsidy receivables and sugar inventory.

Gross debt also rose, to ₹1,068 crore from ₹760 crore, being 0.51 times equity versus 0.40 times in 2014-15. Lower cost of production across business segments in Q4 2015-16 also saw the company emerge from red, with a net profit of ₹51 crore, following a net loss of ₹40 crore in the previous quarter. Finance costs were lower at ₹86 crore in 2015-16, from ₹112 crore in 2014-15.

J.K. Jain, executive director & chief financial officer, DCM Shriram, who has been with the company for the last 22 years, says the outlook on net or gross debt going into March 2017 would mainly depend on the subsidy outstanding. The company was reimbursed about ₹200 crore of the subsidy dues of ₹760 crore in April. According to Vikram Shriram, the government pays no interest on delayed payments, and banks too make no concessional lendings against this recoverable, though it is as per a government formula.

Ajay Shriram feels the direct benefit transfer (DBT) for fertilisers, envisaged in the Union Budget of 2016-17 and introduced as a pilot across a few

Calcium Carbide Plant, Kota

districts, may take at least two years to become pan-India, constraining companies like his till then with higher working capital requirements. DBT entails direct delivery of subsidy to the bank accounts of farmers, but replicating the DBT model for LPG to fertilisers will require vigorous scrutiny to eliminate fake beneficiaries.

Bringing changes

Vikram Shriram notes that agricultural subsidies are universal, but delayed subsidy payments in India, which can range from three to six months, constrict cash flow. He urges for a gradual price increase for all fertilisers, and for removing middlemen owing to whom the farmer loses out. He lauds the government for bringing in the necessary changes in agriculture, with, for instance, its intent to abolish the Agricultural Produce Market Committee (APMC) Act already showing results.

The brothers deem their borrowings to be at comfortable levels, despite undertaking projects worth ₹725 crore over 2015-16 and 2016-17, which, they say, will add significant value to the company from this year onwards. Its long term credit rating has been upgraded to AA- from the earlier A+, with the short term rating affirmed at A1+ by the investment information and credit rating agency, ICRA. The board has recommended a final dividend of 40 per cent, total dividend for 2015-16 being 160 per cent – up from 110 per cent the previous year.

Though the agri-input business contributed to 53 per cent of revenues in 2015-16, Vikram Shriram indicates that this segment faced challenges on account of adverse weather conditions during the year. He was, however, heartened by his company's overall performance that was driven by improved sugar business fundamentals and stability of the chlor-vinyl business. The sugar industry's viability too improved during H2 2015-16, with lower production costs and sugar prices firming up to ₹3,031 per quintal in Q4 2015-16 from ₹2,675 per quintal in Q3 2015-16. Sugar recovery too was high, at 11.1 per cent, versus 9.9 per cent the last season when there was a ₹98 crore inventory write-down due to negative margins.

Despite lower availability of sugarcane, 110.9 lakh tonnes of sugar have been produced till 15 January, up 6.81 per cent from the same period the year before, mainly due to early crushing operations. Against the mandatory export target of 32 lakh tonnes of sugar, 7 lakh tonnes were exported till 15 January, the balance 25 lakh tonnes to be exported by September 2016. An Indian Sugar Manufacturers' Association (ISMA) statement mentions that compared to the 2014-15 sugar season, sugar production in Karnataka, Uttar Pradesh and Maharashtra in the current season till 15 January was higher by 3.4, 2 and 1 lakh tonnes respectively. While 168 sugar mills in operation in Maharashtra crushed about 415.9 lakh tonnes of sugarcane, producing 44 lakh tonnes of sugar till 15 January, 116 sugar mills in the second largest sugar producing state of Uttar Pradesh produced 27 lakh tonnes of sugar, and 64 mills in Karnataka produced 21.12 lakh tonnes of sugar.

Ajay Shriram, who is the immediate past president of CII, urges for the 'rational approach' of the Centre and states in respect of cane pricing, ethanol, exports, etc to continue. He cites two reasons for an adequate focus, and thrust, on India's farm sector. "One is that 82 per cent of the 110 million farming families have landholdings of less than two hectares, and the second is, agriculture being a concurrent subject, states are responsible for utilising the funds earmarked by the Centre on the programmes envisaged," he observes. CII has been urging the Union government to push the states to implement the Centre's schemes, whether regarding irrigation, power, revoking the APMC Act, easing fertiliser availability, soil cards, etc.

Vikram Shriram says bioseed revenue stood lower at ₹485 crore last year from ₹570 crore the year before as a deficient monsoon affected sales of Bt cotton and corn seeds. Revenue of international business was also subdued as the El Nino phenomenon affected off-take in the Philippines and Vietnam. According to him, while the Centre's decision to regulate Bt cotton seed prices and trait value may affect business, the predicted normal monsoon in 2016 is likely to boost performance. "Our high focus on R&D and a strong product pipeline are augmenting product portfolio, together with our marketing efforts to enable growth in India and abroad," he adds.

The Shrirams acquired Bioseed Genetics International Inc in 2002 to form Shriram Bioseeds, a biotechnology company specialising in R&D, field and lab testing, data review, production, farm management and farmer interaction. Bioseed has nine breeding stations, over 30 testing stations and 8,000 germplasm.

Scaling up

The order book position of Fenesta Building Systems of Shriram Axiall Pvt Ltd, a joint venture between Shriram PolyTech (DSL's PVC compounding business) and the US's Axiall Corp (now being acquired by rival Westlake Chemical for $3.8 billion), went up to ₹77.8 crore in 2015-16 from ₹67 crore in 2014-15, while revenue rose from ₹48.5 crore to ₹56.9 crore. Prem Das, president & business head (plastics & power), DCM Shriram, who joined the company as a management trainee in 1985, points out that Fenesta has installed over a million windows and doors across nearly 150,000 homes, and has a sales and service presence in some 100 cities through 20 sales offices, four factories, nine signature studios, nearly 100 dealer showrooms and a direct sales force of more than 300 executives.

The company is scaling up these operations and believes this business will be a growth driver in future. Indicating that multiple grades of PVC resins are produced at the 70,000 TPA capacity facility in Kota, covering wide end-use markets, Das mentions that these resins are made from calcium carbide that is produced at the adjacent 112,000 TPA capacity unit. Part of the calcium carbide is also sold to various industrial users.

Vinoo Mehta, senior vice-president & business head, cement, DCM Shriram, says Shriram Cement Works (SCW) is a wet process cement plant based on the calcium hydroxide sludge of the sister calcium carbide plant. Commissioned in 1987 with technical know-how from France's Lafarge Coppee Lavelin, the plant produces Shriram 53, Shriram Nirman and Shriram Silver brand cements, besides trading in PoP (plaster of Paris). SCW sold 4,26,665 tonnes of cement in 2015-16, compared to 3,90,316 tonnes the year before. Continued stress on prices, however, depressed realisations to ₹2,667 a tonne, from ₹2,860. Revenue remained flat, ₹139 crore from ₹137 crore, though PBIT loss was pared down from ₹5.1 crore to ₹80 lakh due to higher volumes and lower input costs. "SCW is a pollution control plant, and used to produce around two lakh tonnes per year, which has now more than doubled," he says.

Ajit Shriram, who is tech savvy, has been imparting a technology thrust to the company for streamlining operations, upgrading management systems and optimising costs. "DCW Shriram is India's first company to be implementing the upgraded SAP S/4 HANA enterprise resource planning (ERP) software," he mentions. "SAP is our implementation partner and with the programme going live this April, this financial year will complete on this new package." S/4 HANA is an advanced in-memory platform hosting a next-generation business suite deployable in the cloud or on-premise to drive value across lines of business and industries.

DSL has also for long been using Fuzzy Logic (FL) to improve various aspects of plant efficiency. FL is an equipment-control system that mimics human decision-making, almost instantaneously arriving at a definite conclusion drawn from ambiguous, imprecise or missing input information. "Fuzzy Logic receives inputs from diverse parameters, analyses them based on initial IT programming, and then sifts through those algorithms so as to control the efficiency of that particular equipment or process in an improved manner," explains Ajit Shriram.

Yet another feature in use by the company is the distributed control system (DCS) for a process or plant where, unlike a single controller at a central location, its control elements are distributed throughout the system. A hierarchy of controllers, connected by communications networks for command and monitoring, oversees manufacturing processes that are continuous or batch-oriented, such as fertilisers, cement and power generation. DCSs are connected to sensors and actuators and use setpoint control to control the flow of material through the plant.

Commenting on DCM Shriram's 2015-16 financials, Emkay Research finds the company having posted a robust set of numbers, driven by strong margins in its chemicals segment and a turnaround in its sugar business. It sees the company benefiting in 2016-17 from the momentum across its segments, with chemicals poised for an earnings growth from the commercialisation of ongoing capex, while sugar will become more profitable from increased realisation.

"Driven by all segments, DCM Shriram's earnings will grow at a CAGR of 25 per cent over 2016-18, as we upgrade our earnings for 2016-17 by 16 per cent," notes Emkay, recommending BUY on a revised targeted share price of ₹260, based on a ninefold increase in the ₹28.6 EPS by end of 2017-18. It sees this growth driven by the commissioning of new

The urea story

Twenty-eight million tonnes of urea, or 56 crore 50-kg bags, are sold annually in India. With an individual farmer applying urea and other fertilisers in diverse proportions and volumes according to his needs, topography and cropping patterns, direct benefit transfer (DBT) in fertilisers is rendered more complicated than the straight 'one product-12 cylinders' formula for LPG.

Urea's maximum retail price (MRP) is subsidised at source and fixed at ₹5,360 per tonne, or ₹268 per 50 kg bag. MRPs for other fertilisers are supposedly decontrolled, though they are to be capped at 'reasonable' levels for producers to avail of a fixed per-tonne subsidy. While the MRP of DAP (di-ammonium phosphate) is about ₹25,000 per tonne, it is around ₹15,500 for MOP (muriate of potash), making the subsidies payable to producers ₹12,350 for DAP and ₹9,300 for MOP. The subsidy on urea varies depending on the assessed production costs for each plant. ◆

capacity in the chemical segment, a turnaround in sugar profitability, despite lower sales, owing to higher realisations that are expected to sustain in the near term, and demand picking up in the company's agri-input segment on expectations of a normal monsoon.

J.K. Jain, executive director & chief financial officer, DCM Shriram, who has been with the company for the last 22 years, says capacity expansion by 1,60,000 tonnes will increase the 2,70,000-tonne annual production in the chemicals business to between 3,30,000 and 3,40,000 tonnes a year on an annualised basis. Ajay Shriram adds that the Bharuch unit will come to full capacity in the next four months with the expansion of electrolysers – salt (sodium chloride) is electrolysed in the chlor-alkali process to produce chlorine and caustic soda (sodium hydroxide) – as well as with the setting up of an over 60 MW power plant.

These measures entail an investment of ₹600 crore, of which ₹370 crore has been spent till date and the balance will be invested up to the end of the second quarter of this financial year. This will be a brownfield expansion – resulting in production of 500 TPD of caustic soda and 60 MW of power – as the present facility in Bharuch, originally commissioned in 1995-96, produces 450 TPD of caustic soda and 55 MW of power. The project return on investment (RoI) envisaged is an average 25 per cent, says Jain.

Shriram Urea bags

A further ₹120 crore will be invested for a high pressure boiler that will help generate an additional 18 MW for powering one of the sugar factories, from the same volume of bagasse. "This will enable us to sell this additional power, gaining us better revenue and efficiency," maintains Ajay Shriram. "We also spend ₹80-100 crore every year for upgradation, debottlenecking, instrumentation, environment management, etc, so in the last one year and the next two, our total capex would be in the range of ₹1,000 crore."

He acknowledges that his company has been selling molasses in the market as it has no distillery yet to ferment it into ethanol. With ethanol blending of motor fuel becoming mandatory, sugar companies are profiting from selling ethanol. "We have sought clearance from the State Electricity Board and licence from the environment ministry for such a distillery and until the time we set up such a facility, we will need to continue selling molasses in the market," he adds.

Vikram Shriram says DCM Shriram continuously benchmarks itself with its counterparts in the different segments, for instance, being the third largest chlor-alkali manufacturer in India, after Gujarat state-owned Gujarat Alkalies & Chemicals, in Vadodara, and Aditya Birla Chemicals (India). ABCIL was merged with Grasim in April 2015 to consolidate Grasim's leadership position in the domestic chlor-alkali industry, with its capacity increasing from 4,52,500 TPA to 884,200 TPA. The caustic soda capacities of Gujarat Alkalies have grown from 37,425 TPA when it was set up in 1973 to 3,58,760 TPA.

There are 34 active chlor-alkali units in India, and while chlorine is the driving product globally for the chlor-alkali industry, in India, it is caustic soda. Challenged by cheap imports through reduced custom duties, Indian manufacturers petitioned the designated authority for protection against unfair competition in products like caustic soda lye and flakes, and potassium carbonate. Anti-dumping duty has now been imposed on such imports. Jain, however, terms as low the seven per cent import duty on caustic soda that has made India its net importer, and believes that any commodity business, especially one driven by supply and demand, has to be competitive in terms of production cost. But he views the 6-7 per cent growth in this business of his company over the last few years as fairly stable and positive.

"Thoughts keep coming up, while on demerging the company's varied segments like farming, chlor-alkali and sugar, to unlock investor value," remarks Ajay Shriram. "There is also the belief that conglomerates have their own strengths and capabilities of cross-supporting businesses when chips are up or down."

The brothers look after various facets of the business and desist from implementing any decision until all three agree on it. "We do disagree at times – this is natural and healthy – but eventually reach a consensus," says Ajay Shriram. The trio has been going on an annual 'brothers' retreat' for the past 16 years for sessions conducted by Sushanta Banerjee of the organisation development consultancy called Samuday Psycon. Their sons – Ajay's sons Aditya, who is senior VP, Chemicals, and Anand, Vikram's son Pranav, who is senior officer with Fenesta, and Ajit's son Varun – are being groomed as the next generation Shrirams.

"The diversified nature of our company has helped deliver a strong performance, and our cash generations will strengthen further after commissioning of new projects in 2016-17, enabling us to take more growth initiatives in coming years," notes Ajay Shriram. "Besides, our endeavour to deploy the latest technologies and best business practices will ensure our competitiveness and growth over the long-term."

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