June 29, 2021

DCM Shriram Limited: Rating upgraded; rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	553.90	510.70	[ICRA]AA+ (Stable); revised from [ICRA]AA (Stable)
Fund based	1095.00	1150.00	[ICRA]AA+ (Stable); revised from [ICRA]AA (Stable)
Non-fund based	700.00	800.00	[ICRA]A1+ reaffirmed
Commercial Paper	800.00	600.00	[ICRA]A1+ reaffirmed
Fixed Deposit	40.00	40.00	MAAA (Stable); revised from MAA+ (Stable)
Unallocated	187.88	76.08	[ICRA]AA+(Stable)/[ICRA]A1+; revised from [ICRA]AA (Stable)/[ICRA]A1+
Total	**3,376.78**	**3,176.78**	

**Instrument details are provided in Annexure-1*

Rationale

The rating revision factors in the significant decline in DCM Shriram Limited's (DCM) net debt levels driven by the improvement in working capital cycle of the fertiliser and sugar segment, leading to net debt/OPBDITA of 0.1x times as on March 31, 2021 and likelihood of the same remaining comfortable going forward. The clearing of subsidy backlog in the fertiliser segment due to release of additional subsidy by the GoI in FY2021 and diversion of sugar towards ethanol production leading to lower sugar inventory will lead to lower working capital requirements. The company has completely exited the bulk fertiliser sales under the Shriram Farm Solution (SFS) business and is focussed on selling of value-added products, which has also resulted in improved profitability and moderation in the working capital cycle. As a result of all these factors, the overall working capital requirement and working capital debt has come down and is expected to remain lower than the past years which should lead to better capitalisation and coverage ratios. The rating upgrade also factors in the improvement in the cost structure of the company driven by the commissioning of the 66 MW power plant at Kota in FY2020 and further improvement expected post commissioning of the 120 MW power plant in Bharuch in FY2022. Going forward, the revenues, profits and cash accruals are expected to grow owing to anticipated improvement in the Electro Chemical Unit (ECU) realisations of chlor-alkali business, healthy performance of the sugar segment and increasing scale and profitability of the SFS business of the company. ICRA notes the proposed downstream integration projects to be setup at Bharuch complex which will consume ~20% of the chlorine being produced at the facility. The increased captive chlorine consumption is expected to lend stability to the caustic soda production and the ECU realisations at the Bharuch complex as Chlorine disposal remains a key constraint for caustic soda production in India. The company has significant capex plans over the next three years which involves setting up of a 51,000 MTPA Epichlorohydrin (ECH) project, Aluminium Chloride capacity expansion project, 52,500 MTPA Hydrogen Peroxide (H_2O_2) plant, 120 MW power plant at Bharuch, 700 TPD caustic soda capacity at Bharuch and other capex along with smaller projects. Given the strong cash generation, the debt requirement for the capex is expected to remain low and the credit profile is likely to remain comfortable. Though the company remains vulnerable to project execution risks however it's strong track record in executing capex programs within timelines and budgets gives comfort in terms of project execution.

The ratings continue to factor in the diversified business profile of the company, high operating efficiency of the chlor-alkali division wherein DCM is now the second largest caustic soda manufacturer in the country and enjoys the advantage of low-cost coal-based captive power generation facilities at the Kota (Rajasthan) and Bharuch (Gujarat) plants. The other business segments, namely Bioseed, Shriram Farm Solutions, etc, have also demonstrated steady improvement in the performance.

The ratings also factor in the healthy financial risk profile of the entity characterised by stable cash generation, low net leverage (Net Debt/OPBDITA) levels, and strong liquidity as indicated by healthy cash balances and availability of large unutilised working capital limits.

The ratings are constrained by the cyclical nature of the caustic soda, Sugar and the PVC segments although the company has been working on downstream integration projects to reduce volatility on the earnings. ICRA notes the subdued caustic soda prices and capacity surplus situation in the country which has resulted in slower ramp up of the 332 TPD capacity commissioned at Bharuch in Q1 FY2020 and low ECU realisations resulting in lower cash generation from the segment. Going forward the capacity utilisation and ECU realisations are expected to improve as consumption from end user industries such as textile, paper improve.

Key rating drivers and their description

Credit strengths

Diversified business profile with benefits derived from integration- DCM Shriram has a diversified business profile with presence across chlor-alkali, PVC, sugar, urea, agri-inputs like Bioseeds, agro-chemical trading, fenesta and cement segments. DCM Shriram has two plants located at Kota (Rajasthan) and Bharuch (Gujarat) with both plants having access to low cost coal-based power through captive power plants. The Kota plant is an integrated facility manufacturing caustic soda, chlorine, PVC, cement and urea. The integrated nature of operation ensures company's competitiveness in the chemicals and the PVC segment. It also allows the company to decide on the basket of products to be produced resulting in maximisation of earnings per unit of power produced.

High operating efficiency of chlor-alkali division and low-cost coal-based captive power generation facility at Kota (Rajasthan) and Bharuch (Gujarat) plants- DCM's chlor-alkali operations at Kota (498 TPD) and Bharuch (1345 TPD) are supported by 225 MW coal based captive power capacity. The company has replaced its old 50 MW power plants with an efficient 66 MW plant which has improved the reliability of operations and further enhanced the cost structure by reducing the power cost. The company is in the process of commissioning a 120 MW power plant at its Bharuch facility which will lead to significant cost savings in the caustic soda segment. The production of caustic soda is an energy intensive process and DCM's access to low cost power favourably impacts its costs structure and thus results in healthy profitability from the segment.

Healthy scale of operations of the Chlor-alkali business with further improvement expected in the segment profile with downstream integration- DCM has undertaken successive capacity expansions in the caustic soda segment over the last couple of years taking the total caustic soda capacity to 1843 TPD. DCM is currently the second largest manufacturer of caustic soda in the country with a competitive cost structure which places it well among its peers in the industry. The company is also setting up Chorine and Hydrogen downstream integration projects which will lend more stability to the operations and also add value to the downstream products through manufacturing of Epichlorohydrin from Chlorine and Hydrogen Peroxide form hydrogen.

Ramp up of distillery operations to mitigate cyclicality of the sugar segment- DCM Shriram had commissioned 2 distilleries with a combined capacity of 350 kld over last two years which have been able to ramp up production at a healthy pace. In FY2021, company diverted a significant amount of its B-molasses to produce ethanol and thus reduced its sugar production. The distillery operations have further provided stability to the earnings of the sugar segment which earlier remained vulnerable to the volatility in the sugar prices and cane pricing. Also, with the setting up of the Minimum Support Price (MSP) mechanism for the sugar industry and promoting exports, GoI has made positive changes for the sugar industry.

Healthy financial risk profile characterized by healthy cash accruals, low net leverage levels, healthy cash balances and large unutilised bank limits- The capital structure of the company has remained robust, characterised by low gearing and leverage, healthy interest coverage and liquidity resulting from large unutilised bank limits. The overall debt levels declined in FY2021 driven by release of working capital in the fertiliser as well as the sugar segment and company not undertaking any significant capex coupled with strong cash generation. The total debt moderated to Rs. 1,451.2 crore at the end of FY2021 vis-à-vis Rs. 2,149.9 crore at the end of FY2020. The gearing of the company improved to 0.3x at the end of FY2021 vis-à-vis 0.5x at the end of FY2020. Total Debt/OPBDITA moderated to 1.3x at the end of FY2021 from 1.8x in FY2020. With the cash and equivalents rising sharply to Rs. 1,333.7 crore at the end of FY2021, Net Debt/OPBDITA moderated to 0.1x at the end of FY2021 from 1.3x at the end of FY2020. Interest coverage improved to 9.4x in FY2021 from 7.4x in FY2020 owing to the decline in the interest rates as well as lowering of the working capital borrowings. The capitalisation and coverage metrics have shown strong improvement in FY2021 and the credit profile of the entity is expected to remain robust going forward as well.

Credit challenges

Cyclical nature of sugar, chemicals and polyvinyl chloride (PVC) businesses, partly being mitigated through downstream integration in the value chain - Sugar industry is a cyclical industry wherein the input price i.e. cane price is set by government while the realisations are market driven albeit with a MSP announced by the government that provides a minimum base for the selling price. The realisations are driven by the sugar production, inventory and demand levels while raw material availability is exposed to agro-climatic risks. The chemicals and PVC businesses are also exposed to the vagaries of currency fluctuations and duty structures apart from cyclicality associated with global and domestic supply-demand balance. However, company has taken steps to mitigate the volatility in the earnings of the sugar segment by commissioning of 350 kld distillery capacity in the last couple of years, wherein the ethanol production has been ramped up significantly. The company is also undertaking downstream integration projects in the caustic soda segment with planned capex for a 51,000 MTPA Epichlorohydrin (ECH) project, Aluminium Chloride capacity expansion project, 52,500 MTPA Hydrogen Peroxide (H_2O_2) plant. These projects are expected to moderate the cyclicality of the caustic soda segment although these products are also commodity products and the offtake and realisations will remain exposed to commodity cycles.

Moderation in the ECU realisations for the caustic soda segment resulting in lower cash accruals: The international caustic soda prices had moderated in FY2021 and the same is reflected in the domestic caustic soda prices as well, pushing down the ECU realisations for chlor-alkali manufacturers. Nevertheless, caustic soda prices have improved from the lows of FY2021 and going forward the ECU realisations are expected to improve as consumption from end user industries such as paper and textiles improves.

Liquidity position: Strong

DCM Shriram's liquidity is expected to remain strong given its large cash balances and unutilised working capital limits which along with the anticipated healthy cash accruals will be more than sufficient to meet the near-term liabilities of the company. ICRA expects DCM Shriram to meet its debt repayment obligations comfortably over the next three years as the repayments are comfortable vis-a-vis the cash flow from operations.

Rating sensitivities

Positive factors – Further upgrade in the rating of DCM Shriram Limited remains unlikely till the company is able to significantly ramp up its scale of operations and also diversify into less commoditized products. The ability of the company to maintain a healthy credit profile with a Net debt to OPBDITA lower than 0.3x and Return on Capital Employed (RoCE) greater than 25%, over a sustained period of growth posted by the company may result in a rating upgrade.

Negative factors – DCM Shriram's rating may be downgraded in case the company's net debt/OPBDITA remains above 1.5x for a sustained period owing to weak cash generation and/or capex plans/acquisitions resulting in higher debt on the books of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser Entities Rating Methodology for Entities in the Chemical Industry Rating Methodology for Entities in the Sugar Industry
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on the consolidated financials of the company. The details of the entities consolidated are given in Annexure-2

About the company

DCM Shriram Limited (DCM Shriram) is a diversified company with interests in agri-value chain (urea, sugar, seeds and trading of agri-inputs) and the chloro-vinyl chain (chlor-alkali and PVC). Apart from these, the company is involved in certain other related businesses to take advantage of vertical integration, such as Fenesta Building System (UPVC doors and windows), cement (produced at its integrated Kota plant) and PVC compounding (50:50 JV with Axiall Inc., USA). The company's operations are based out of Kota and Bharuch (for chloro-vinyl value chain) and central Uttar Pradesh (for sugar). In Kota, the company has a fully integrated unit with chlor-alkali, PVC, urea and cement plants and a captive power plant. The company also has a chlor-alkali plant in Bharuch along with a captive power plant. The sugar operations of the company are based in central Uttar Pradesh (UP). The bioseed division of the company is headquartered in Hyderabad. The company is a public limited company with 66.53% of the shareholding being held by the promoter group as of March 31, 2021, while the rest is held by institutional investors and the public.

Key financial indicators (audited)

DCM Shriram Limited, Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	7767.1	8308.2
PAT (Rs. crore)	719.4	672.3
OPBDIT/OI (%)	15.59%	13.82%
PAT/OI (%)	9.26%	8.09%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.7
Total Debt/OPBDIT (times)	1.8	1.3
Interest Coverage (times)	7.4	9.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					29 June 2021	6 July 2020	28 Jun 2019	30 May 2018
1	Term Loan*	Long Term	510.7	510.7	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)
2	Fund based	Long term	1150.0	-	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)
3	Non-fund based	Short Term	800.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper	Short Term	600.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Fixed Deposit	Medium term	40.00	-	MAAA (Stable)	MAA+ (Stable)	MAA+ (Positive)	MAA+ (Stable)
6	Unallocated	Long Term/Short Term	76.08	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Positive)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+

**As of March 31, 2021*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Fund based	Simple
Non-fund based	Simple
Commercial Paper	Simple
Fixed Deposit	Simple
Unallocated	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Term Loan-1	October 2016	-	October 2026	54.00	[ICRA]AA+ (Stable)
-	Term loan-2	January 2018	-	January 2028	91.14	[ICRA]AA+ (Stable)
-	Term loan-3	November 2018	-	June 2024	128.16	[ICRA]AA+ (Stable)
-	Term Loan-4	December 2018	-	March 2020	21.00	[ICRA]AA+ (Stable)
-	Term Loan-5	December 2018	-	December 2024	15.00	[ICRA]AA+ (Stable)
-	Term Loan-6	March 2019	-	March 2029	40.52	[ICRA]AA+ (Stable)
-	Term Loan-7	March 2019	-	March 2029	160.88	[ICRA]AA+ (Stable)
-	Fund based-long term	-	-	-	1150.0	[ICRA]AA+ (Stable)
-	Fixed Deposit Program	-	-	-	40.0	MAAA(Stable)
-	Non fund based	-	-	-	800.0	[ICRA]AA+ (Stable)
Not placed yet	Commercial Paper	-	-	7- 360 days	500.0	[ICRA]A1+
INE499A14CN8	Commercial Paper	April 22, 2021	3.70%	June 29, 2021	50.0	[ICRA]A1+
INE499A14CO6	Commercial Paper	June 2, 2021	3.80%	September 1, 2021	50.0	[ICRA]A1+
	Unallocated	-	-	-	76.08	[ICRA]AA+ (Stable) / [ICRA]A1+

***Source:** Company; Term Loans as of March 31, 2021*

Annexure-2: List of entities considered for consolidated analysis

Company Name	DCM Shriram's Ownership	Consolidation Approach
DCM Shriram Credit & Investments Limited	100.00%	Full Consolidation
Bioseed India Limited	100.00%	Full Consolidation
DCM Shriram Infrastructure Limited	100.00%	Full Consolidation
Fenesta India Limited	100.00%	Full Consolidation
Shri Ganpati Fertilizers Limited	81.41%	Full Consolidation
Hariyali Rural Ventures Limited	100.00%	Full Consolidation
DCM Shriram Aqua Foods Limited	100.00%	Full Consolidation
Shriram Bioseed Ventures Limited	100.00%	Full Consolidation
Bioseeds Limited	100.00%	Full Consolidation
Bioseeds Holdings PTE Limited	100.00%	Full Consolidation
Bioseed Research Phillipiness Inc.	100.00%	Full Consolidation
Bioseed Vietnam Limited	100.00%	Full Consolidation
Shriram Bioseed (Thailand) Limited	99.99%	Full Consolidation
Bioseed Research USA Inc.	100.00%	Full Consolidation
Shriram Axiall Private Limited	50.00%	Full Consolidation

***Source:** DCM Shriram Limited*

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Ankit Jain
+91 124 4545 865
ankit.jain@icraindia.com

Varun Gogia
+91 124 4545 373
varun.gogia@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches