June 01, 2017

DCM Shriram Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. Crore)	Rating Action
Term Loans	118.57 (enhanced from Rs. 96.96 crore)	Upgraded from [ICRA]AA- (Stable) to [ICRA]AA (Stable)
Long-Term Fund Based Limits	870.00	Upgraded from [ICRA]AA- (Stable) to [ICRA]AA (Stable)
Short-Term Non-Fund Based Limits	885.00	Reaffirmed at [ICRA]A1+
Long-Term / Short-Term Unallocated	311.43 (reduced from Rs. 333.14 crore)	Upgraded from [ICRA]AA-(Stable)/A1+ to [ICRA]AA/(Stable)/A1+
Total Bank Facilities	**2185 (same as Rs. 2185 crore earlier)**	
Commercial Paper Programme	800.00	Reaffirmed at [ICRA]A1+
Fixed Deposit Programme	40.00	Upgraded from MAA- (Stable) to MAA+ (Stable)

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating assigned to the bank facilities of DCM Shriram Limited (DCM Shriram) to [ICRA]AA (pronounced ICRA double A) from [ICRA]AA- (pronounced ICRA double A minus). The outlook on the long-term rating is ‘Stable’. ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the bank facilities and the commercial paper programme of the company.[†] ICRA has also upgraded the medium term rating of the Rs. 40.00 crore fixed deposit programme of the company to MAA+ (pronounced M double A plus) from MAA- (pronounced M double A minus). The outlook on the medium term rating is ‘Stable’.

Rationale

ICRA’s rating action takes into account the strengthening business profile with increased level of integration of sugar division following expansion of co-generation (cogen) power capacity and proposed distillery to produce ethanol; and increased scale of operations and improved energy consumption levels of the chlor-alkali segment. The long-term rating revision also factors in improved availability of sugar cane for the company due to the new cane variety having higher yield along with the sustained efforts by the company to increase its cane area and timely cane payment to farmers. ICRA also draws comfort from the favourable domestic demand-supply scenario for the sugar industry and substantially lower, closing stock estimated at the end of the Sugar Year (SY) 2017 as compared to the previous SY. The rating action also considers material improvement in the performance of the sugar segment with increase in realisation and significant rise in cane crushed and healthy cash accruals from the chloro-vinyl division due to higher volumes post expansion.

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

The ratings continue to factor in the diversified business profile of the company, high operating efficiency of the chlor-alkali division and low-cost coal-based captive power generation facilities at the Kota (Rajasthan) and Bharuch (Gujarat) plants. The long-term rating, however, continues to be constrained by the cyclical nature of sugar, chlor-alkali and PVC businesses, sensitivity of chemicals and PVC businesses' profitability to exchange fluctuations and import duty levels. It also takes into consideration the vulnerability of profitability of the fertiliser and farm solutions divisions to regulatory policies and delays in subsidy receipts and agro-climatic risks. The bioseed division is highly working capital intensive and technically intensive, apart from its exposure to agro-climatic risks.

The ratings also reflect the comfortable financial risk profile of the company characterised by healthy capital structure and improvement in debt protection metrics during FY2017, its continuing healthy liquidity position and financial flexibility driven by healthy cash accruals in the recent years. The company's liquidity position is also supported by significant unutilised fund-based bank limits and competitive funding costs. Despite recent project capital expenditures (~Rs. 700 crore over FY2016 and FY2017) incurred by the company on expansion-cum-upgradation of Bharuch chlor-alkali capacity and expansion of the sugar cogen capacity and the rise in sugar inventory, net debt level declined in FY2017 on the back of fall in urea subsidy along with healthy cash generation which resulted in less than anticipated disbursements of term loans. Going forward, the company's credit metrics are expected to remain at comfortable levels as reliance on incremental debt is expected to be limited.

Key rating drivers

Credit strengths

- Diversified business profile with benefits derived from integration
- High operating efficiency of chlor-alkali division and low-cost coal-based captive power generation facility at Kota (Rajasthan) and Bharuch (Gujarat) plants
- Increased level of integration of sugar division following expansion of co-generation (cogen) power capacity and proposed distillery to produce ethanol
- Increased scale of operations and improved energy consumption levels of the chlor-alkali segment
- Healthy cash accruals from chloro-vinyl division due to higher volumes post expansion and firm caustic soda prices offsetting the impact of the fall in chlorine realisation
- Material improvement in the performance of sugar segment with increase in realisation and significant rise in cane crushed
- Strong balance sheet with low gearing levels and comfortable debt coverage indicators; healthy liquidity position and financial flexibility of the company driven by healthy cash accruals in recent years; significant unutilised bank limits and fund raising at competitive rates

Credit weaknesses

- Cyclical nature of sugar, chemicals and polyvinyl chloride (PVC) businesses
- Vulnerability of fertiliser and farm solutions divisions' profitability to regulatory policies, delays in subsidy receipts, and agro-climatic risks
- High working capital intensive and technically-intensive nature of bioseed business; vulnerability of division to agro-climatic risks
- Pressure on the profitability of bioseed segment due to continued losses in international business
- Investment to meet target energy consumption norm applicable from April 1, 2019 for urea segment may not be remunerative

Description of key rating drivers:

The performance of the chlor-alkali segment has been healthy as reflected by 18% YoY increase in PBIT of the segment to Rs. 289 crore in FY2017 with rise in sales volumes of the chlor-alkali segment by 26% YoY following the expansion of chlor-alkali capacity at the Bharuch plant and firm caustic soda realisations offsetting the impact of fall in chlorine realisations. The company expanded its caustic soda capacity at the Bharuch plant from 450 tonnes per day (TPD) to 1013 TPD and the power plant capacity from 55 MW to 115 MW at a capex of ~Rs 534 crore. The plastics segment of DCM Shriram reported stable PBIT of Rs. 109.8 crore in FY2017 as compared to Rs. 104.5 crore in FY2016 as higher realisations of PVC offset the impact of lower sales volumes.

The performance of the sugar division improved significantly during FY2017 vis-à-vis FY2016. In SY2015 and SY2016, the company had suffered due to lower capacity utilisation levels (50-65%). However, for SY2017, the company has been able to utilise the capacity at ~83% (with cane crush capacity of ~500 lakh qtl) due to new cane variety with higher yield and recovery rates along with efforts by the company to increase its cane area and timely cane payment to farmers. The profitability of the sugar division showed marked improvement in FY2017 with a PBIT of Rs. 315.4 crore as against a PBIT of Rs. 87.8 crore in FY2016 following higher sales volumes, better realisations, and higher co-gen power sales notwithstanding 9% YoY higher cane price. The company's cogen power expansion project at Ajbapur unit was completed during Q3 FY2017, thereby raising the company's total power capacity to 111 MW from 94.5 MW earlier with a capex of ~Rs. 117 crore. The company is setting up a 150 kilo litre per day (klpd) distillery at its Hariawan sugar unit which is expected to be commissioned by Q4 FY2018 at total project cost of ~Rs. 185 crore.

The energy consumption norm of urea producing unit of DCM Shriram is currently at about ~7.585 Gcal/MT, while the target energy consumption norm for the company applicable from April 1, 2019 is 6.5 Gcal/MT. The new target energy consumption norm can be met only with a gas based power plant and thus, may require material investments which may not generate remunerative returns. Currently, the company uses coal to generate power which is more cost efficient (cost of coal being only about half of gas) vis-à-vis natural gas even though it is less energy efficient. Thus, even after meeting the target energy consumption, there may not be any savings in subsidy.

With regards to other segments, the PBIT of the bioseed segment increased to Rs. 14.7 crore in FY2017 from Rs. 8.1 crore in FY2016, led by the Indian segment's PBIT increasing YoY, offset by continued losses reported by the international segment. The PBIT of farm solutions segment declined by 60.7% YoY to Rs. 28.6 crore in FY2017 on account of pressure on demand and profitability on trading of value added inputs apart from exit of the company from trading of di-ammonium phosphate (DAP) and Muriate of Potash (MOP) owing to low margins and long backlog of subsidy.

Analytical Approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below

Links to applicable criteria:

Corporate Credit Ratings Methodology
Rating Methodology for Entities in the Chemical Industry
Rating Methodology for Entities in the Sugar Industry

About the company:
DCM Shriram Limited 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. The bioseed division of the company is headquartered in Hyderabad. The company had previously expanded into another large venture named Hariyali Kisaan Bazaar, a chain of rural retail stores, which was rationalised in FY2012 and FY2013 owing to continuing losses. The company is a public limited company with 63.87% of the shareholding being held by the promoter group as of March 31, 2017, while the rest is held by institutional investors and the public.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017		Date & Rating in FY2016	Date & Rating in FY2015				
				June-17	May-16	Apr-16	Jun-15	Mar-15	Feb-15	Jul-14	Jun-14
1	Term Loans	Long Term	118.57	[ICRA] AA (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	-	-	[ICRA] A+ (Stable)
2	Fund-Based Limits	Long Term	870.00	[ICRA] AA (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	-	-	[ICRA] A+ (Stable)
3	Non-Fund Based Limits	Short Term	885.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	-	-	[ICRA] A1+
4	Unallocated	Long term / Short Term	311.43	[ICRA] AA (Stable) / A1+	[ICRA] AA- (Stable) / A1+	[ICRA] AA- (Stable) / A1+	-	-	-	-	-
5	Fixed Deposit	Medium Term	40.00	MAA+ (Stable)	MAA- (Stable)	MAA- (Stable)	MA+ (Stable)	MA+ (Stable)	-	MA+ (Stable)	-
6	Commercial Paper	Short Term	800.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	-	[ICRA] A1+

Complexity level of the rated instrument: ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in.

Annexure-1

Instrument Details

Name of the instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
Term Loan 1	March 2014	-	March 2019	64.57	[ICRA]AA (Stable)
Term Loan 2	October 2016	-	October 2026	54.00	[ICRA]AA (Stable)
Long-Term Fund Based Limits	-	-	-	870.00	[ICRA]AA (Stable)
Non-Fund Based Limits	-	-	-	885.00	[ICRA]A1+
Long term/short term Unallocated	-	-	-	311.43	[ICRA]AA (Stable)/A1+
Fixed Deposit Programme	-	-	-	40.00	MAA+ (Stable)
Commercial Paper Programme	-	-	15 days to 3 months	800.00	[ICRA]A1+

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