July 06, 2020

DCM Shriram Limited: Ratings reaffirmed; Outlook revised to Stable from Positive

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	616.78	553.90	[ICRA]AA reaffirmed; Outlook revised to Stable from Positive
Fund based Limits	1120.00	1095.00	[ICRA]AA reaffirmed; Outlook revised to Stable from Positive
Non-fund-based Limits	800.00	700.00	[ICRA]A1+ reaffirmed
Commercial Paper	800.00	800.00	[ICRA]A1+ reaffirmed
Fixed Deposit Programme	40.00	40.00	MAA+ reaffirmed; Outlook revised to Stable from Positive
Unallocated	0.00	187.88	[ICRA]AA reaffirmed; Outlook revised to Stable from Positive/[ICRA]A1+ reaffirmed
Total	**3376.78**	**3376.78**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook factors in the expected moderation in the performance of the company given the weakening performance of the chlor-alkali division driven by softer caustic soda prices. The Electro Chemical Unit (ECU) realisations for the chlor-alkali segment has witnessed significant moderation in FY2020 owing to softening global and domestic caustic soda prices on account of subdued demand. As a result of the muted demand, emanating from weak global and Indian economy, and the impact of the covid-19 pandemic, cash generation from the chlor-alkali division is expected to moderate significantly in FY2021. The revision in the outlook also factors in the stable performance anticipated of the sugar division driven by the expectation of stable sugar prices and increasing support from distillery operations. The domestic sugar prices are expected to remain stable at current levels given the expected reduction in the sugar production as sugar mills divert molasses for production of ethanol resulting in lower sugar production. Additionally the ramp up of the distillery operations of the company will partially mitigate the cyclicality associated with the sugar industry. The revision in the outlook also takes into account the expected moderation in the performance of other segments e.g. urea segment where the expected tightening of the energy norms will result in lower energy savings and Fenesta segment where weakness in the real-estate sector is expected to result in demand headwinds. Though the Fenesta segment is expected to benefit from consolidation as the unorganised sector is expected to shrink due to their inability to sustain operations, nevertheless the outlook for the real estate sector remains weak in the near term. 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 ratings also factor in the healthy financial risk profile of the entity characterised by stable cash generation, low net leverage

(Net Debt/OPBDITA (1.3x at the end of FY2020) levels, healthy cash balances and availability of large unutilised working capital limits.

However, the ratings are constrained by the cyclical nature of sugar, chlor-alkali and poly-vinyl chloride (PVC) businesses, sensitivity of chemicals and PVC businesses' profitability to exchange fluctuations and import duty levels. The ratings also take into consideration the vulnerability of profitability of the fertiliser division to regulatory policies and delays in subsidy receipts and other Agri input businesses of bioseed and farm solution divisions to agro-climatic risks. The company has decided to defer the expansion project of 700 TPD caustic soda, 500 TPD flaker and 120 MW power capacity at Bharuch at a total capital outlay of Rs. 1070 crore till there is better clarity on the business environment in Covid scenario. The liquidity profile of the company is expected to remain healthy driven by healthy cash generation in FY2021 though lower than previously anticipated, low debt repayments vis-à-vis cash flow from operations and deferment of the capex to FY2022.

DCM Shriram is currently the second largest manufacturer of caustic soda in the country, with a competitive cost structure which positions it well in the chlor alkali industry in the country. Company had undertaken successive capacity expansions in the caustic soda segment over the last couple of years. In FY2019, it expanded the caustic soda capacity at Kota by 168 TPD and in April 2019 at Bharuch by 332 TPD taking the total caustic soda capacity to 1843 TPD. To further strengthen its position in the industry, the company had planned another 700 TPD expansion at its Bharuch plant which has now been deferred to FY2022 from FY2021 given the weak outlook for caustic soda demand and prices. The Company is also exploring investments into chlorine downstream products and value added chemicals.

Akin to the expansion in caustic soda capacity, DCM Shriram commissioned a 150 kld distillery in January 2018 at its Hariawan sugar facility and a 200 kld distillery at its Ajbapur facility in November 2019. Both the distilleries have been able to ramp up production at a healthy pace with the Ajbapur distillery having the ability to process B-heavy molasses which will enable the company to reduce its sugar production and ramp up ethanol production. The distillery operations will provide stability to the earnings of the sugar segment which remains vulnerable to the volatility in the sugar prices and to cane pricing. Amongst the other segments, Bioseed segment is expected to witness improvement in the performance as the company exited loss making markets of Vietnam and Indonesia. The Agri-input segment wherein the company exited the bulk fertiliser business in FY2020 and is focusing entirely on value added products is expected to witness healthy performance in FY2021 given the positive outlook on the agri sector in the near term.

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 (1343 TPD) are supported by 224 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 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 second largest capacity in India: 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.

Ramp up of distillery operations to mitigate cyclicality of the sugar segment: DCM Shriram 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. The Ajbapur distillery also has the ability to process B-heavy molasses which will enable the company to reduce its sugar production and ramp up ethanol production. The distillery operations will provide stability to the earnings of the sugar segment which remains vulnerable to the volatility in the sugar prices and to cane pricing.

Robust capital structure and liquidity driven by healthy cash accruals 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 despite undertaking significant capex. With the working capital requirements rising for the urea and the sugar segment in FY2020, the overall debt levels witnessed an increase by the end of the year. The total debt increased to Rs. 2,150.2 crore at the end of FY2020 vis-à-vis Rs. 1610.1 crore at the end of FY2019. The gearing of the company remained unchanged at 0.5x at the end of FY2020 vis-à-vis end of FY2019. Total Debt/OPBDITA increased to 1.7x in FY2020 from 1.2x in FY2019. Net Debt/OPBDITA increased to 1.3x at the end of FY2020 from 0.9x at the end of FY2019. Interest coverage moderated to 7.6x in FY2020 from 11.8x in FY2019 owing to an increase in the interest outgo during the year and moderation in the operating profits as well. Though the credit metrics have moderated in FY2020, they continue to remain healthy.

Credit challenges

Cyclical nature of sugar, chemicals and polyvinyl chloride (PVC) businesses: Sugar industry is a cyclical industry wherein the input price i.e. cane price is set by government while the realisations are market driven. 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

Moderation in the ECU realisations for the caustic soda segment resulting in lower cash accruals: The international caustic soda prices have moderated over the past one year and the same is reflected in the domestic caustic soda prices as well, pushing down the ECU realisations for chlor-alkali manufacturers. As a result of the lower caustic soda prices the cash accruals are expected to be lower than recent years, weighing down on the overall performance of the company.

Pressure on the profitability of Bio-seed segment: The performance of the bio-seed segment has remained weak for the past few years owing to price control by the government on Bt Cotton in India and losses in the international operations. The company has exited from loss making markets of Vietnam and Indonesia. The performance in India however continues to remain exposed to regulatory and agro-climatic risks.

Investment to meet target energy consumption norm for urea segment may not be remunerative: The energy norm applicable for DCM's urea unit under NUP-2015 were to be revised downward from April 1, 2020 onwards after GoI deferred the revision by two years from April 2018. While conversion of coal-based power to gas based power plant will reduce the energy consumption per MT of urea produced, the cost of production would rise given the relative cost of production using coal being lower. The company is in discussion with the GoI regarding allowing the company to continue using coal to produce urea as the cost of production would remain lower. The final decision on the conversion remains pending and the company has not made any provisions for the capex to be incurred for the urea plant as of now. In case the company has to incur capex for urea plant, the same would be non-remunerative given the energy savings would decline.

Liquidity position: Strong

DCM Shriram's liquidity is expected to remain strong given the large cash balances and unutilised working capital limits and expectation of healthy cash accruals, though materially lower than the past couple of years, 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 low vis-a-vis the expected cash flow from operations. The company scaling down of the capex plans for FY2021 further supports the liquidity position of the company.

Rating sensitivities

Positive triggers – The rating of DCM Shriram may be upgraded in case the company is able to diversify its revenue streams resulting in some mitigation to the commodity cycles with healthy revenue and profit contribution from such streams. The rating may also be upgraded in case of the net debt/OPBDITA remains below 0.7x for a sustained period.

Negative triggers – DCM Shriram's ratings may be downgraded in case the company's net debt/OPBDITA remains above 1.5x for a sustained period of two to three years 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 entities in the Chemical industry Rating methodology for rating entities in Sugar industry Rating methodology for entities in the Fertiliser industry
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on the consolidated financials of the company

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, 2020, while the rest is held by institutional investors and the public.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	7801.7	7822.6
PAT (Rs. crore)	902.6	719.4
OPBDIT/OI (%)	17.9%	16.2%
RoCE (%)	31.0%	19.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.0
Total Debt/OPBDIT (times)	1.2	1.7
Interest Coverage (times)	11.8	7.7
DSCR (times)	5.7	3.9

Source: ICRA estimates; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg. (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); DSCR=(Net Profit After Tax + Gross Interest + Depreciation) / (Gross Interest + Long term debt Repayment + Dividend on Preference Shares)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2020	FY2019	FY2018
					06-Jul-2020	28-Jun-2020	30-May-2018	01-Jun-2017
1	Term Loan	Long term	553.90	553.90	[ICRA]AA(stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Fund based	Long Term	1095.0	-	[ICRA]AA(stable)	[ICRA]AA (Positive)	[ICRA]AA (stable)	[ICRA]AA (stable)
3	Non-fund based	Short Term	700.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper	Short Term	800.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Fixed Deposit	Medium term	40.00	-	MAA+ (Stable)	MAA+ (Positive)	MAA+ (Stable)	MAA+ (Stable)
6	Unallocated	Long term/Short Term	187.88	-	[ICRA]AA (stable)/ [ICRA]A1+	-	[ICRA]AA (stable)/ [ICRA]A1+	[ICRA]AA (stable)/ [ICRA]A1+

Amount in Rs. Crore

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

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	92.07	[ICRA]AA (Stable)
-	Term loan-3	November 2018		June 2024	168.51	[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	40.90	[ICRA]AA (Stable)
-	Term loan-7	March 2019	-	March 2029	162.42	[ICRA]AA (Stable)
-	Cash Credit		-		1095.00	[ICRA]AA (Stable)
-	Non-fund based	-	-	-	700.00	[ICRA]A1+
-	Commercial Paper	-	-	7-365 days	800.00	[ICRA]A1+
-	Fixed Deposit	-	-	-	40.00	MAA+ (Stable)
-	Unallocated				187.88	[ICRA]AA (Stable) / [ICRA]A1+

Annexure-2: List of entities considered for consolidated analysis

Company Name	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
PT Shriram Seed Indonesia	95.00%	Full Consolidation
PT Shriram Genetics Indonesia	49.00%	Full Consolidation
Shriram Bioseed (Thailand) Limited	99.99%	Full Consolidation
Bioseed Research USA Inc.	100.00%	Full Consolidation

ANALYST CONTACTS

K Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

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

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

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6169 3300
shivakumar@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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents