June 30, 2022

DCM Shriram Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	510.70	544.24	[ICRA]AA+ (Stable); reaffirmed
Fund based	1,150.00	1,069.0	[ICRA]AA+ (Stable); reaffirmed
Non-fund based	800.00	800.0	[ICRA]A1+; reaffirmed
Commercial Paper	600.00	600.0	[ICRA]A1+; reaffirmed
Fixed Deposit	40.00	40.0	[ICRA]AA+ (Stable); reaffirmed
Unallocated	76.08	123.54	[ICRA]AA+ (Stable)/[ICRA]A1+; reaffirmed
Total	**3,176.78**	**3,176.78**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account the significant improvement in the contribution margins in the chemicals and plastics division, which has translated into a healthy improvement in the operating margins to 18.6% in FY2022 from 13.8% in FY2021. This has been on account of elevated realisations in both the caustic and PVC segments, despite rising power costs. While these contribution margins are likely to moderate going forward, the same are expected to continue to be healthy, which can keep the margins at healthy levels going forward. The other segments, especially Fenesta and Shriram Farm Solutions, also performed well, which mitigated the impact of write-offs in the bio-seeds business. The sugar division was largely steady in terms of the top line even as the margins witnessed compression owing to lower volumes, specially exports and lower availability of molasses in UP.

Healthy cash generation coupled with lower capex levels in FY2022 translated into a built-up of cash to around Rs. 1,600 crore, resulting in negligible net debt levels as on March 31, 2022. The timely receipt of subsidy in the fertiliser segment from the GoI in FY2022 and diversion of sugar towards ethanol production leading to lower sugar inventory kept the working capital requirements under check. The company, under the Shriram Farm Solution (SFS) business, is focussed on selling value-added products, which has also resulted in improved profitability and moderated 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. Going forward, the revenues, profits and cash accruals are expected to remain healthy owing to elevated electro chemical unit (ECU) realisations of the chlor-alkali business, steady performance of the sugar & fertiliser segment and increased scale and profitability of the SFS, Fenesta & Bioseed business of the company.

Chlorine is a by-product in the caustic soda manufacturing process and its disposal remains a key concern for the industry as a whole. ICRA notes the proposed downstream integration projects to be set up at the Bharuch complex which will consume a healthy proportion of the chlorine being produced at the facility. The increased captive chlorine consumption is expected to lend stability to caustic soda production and the ECU realisations at the Bharuch complex.

The ratings continue to factor in the diversified business profile of the company and 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, Fenesta, etc, have also demonstrated a steady improvement in 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 large unutilised working capital limits.

The ratings are constrained by the cyclical nature of the caustic soda, sugar and PVC segments although the company has been working on downstream integration projects to reduce the volatility in earnings. Also, there is significant capex planned in FY2023, which will increase the company's reliance on external debt and is likely to moderate the leverage metrics in the medium term, although these are expected to remain comfortable. While ICRA notes that there have been some cost escalations in the capex programmes planned across various business segments, the long-term viability and integration of these projects in the company's overall operations is likely to benefit the company. However, with the annual cash generation expected to be in the range of Rs. 1,000 to 1,200 crore per year over the medium term, the company's liquidity profile is expected to remain strong, going forward. The company also has the financial flexibility and the headroom to raise additional funding, if required, which can further augment the company's liquidity position.

ICRA also notes the measures adopted by the company in the direction of reducing its carbon footprint. The company is sourcing fuel from alternate fuel sources like biomass to reduce dependency on coal & is also setting up wind solar hybrid renewable power project through a SPV. It is also actively promoting circular economy in its operations by setting up projects like recovery of anhydrous sodium sulphate from brine and manufacturing sulphate of potash from distillery ash.

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 its energy intensive businesses located at Kota (Rajasthan) and Bharuch (Gujarat) with both locations 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 the company's competitiveness in the chemicals and the PVC segments. 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 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 cost structure, resulting in healthy profitability from the segment. However, as of now, high coal prices have impacted the cost-dynamics of the captive power plant and the company is suitably reducing its dependence on coal and finding green alternatives to reduce its carbon footprint and procure less cost power.

Healthy scale of operations of the chlor-alkali business - DCM has undertaken successive capacity expansions in the caustic soda segment over the last couple of years, taking the total caustic soda capacity to 1,843 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 expanding its capacities and 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 the manufacturing of epichlorohydrin from chlorine and hydrogen peroxide form hydrogen.

Ramp-up of distillery operations to mitigate cyclicality of sugar segment- DCM Shriram had commissioned two distilleries with a combined capacity of 350 kld which have been able to ramp up production at a healthy pace. In FY2022, the 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 sugar prices and cane pricing. The company is in the process of expanding its sugar capacity and distillery operations which shall lend further stability to the earnings.

Healthy financial risk profile - 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 gearing of the company improved to 0.27x at the end of FY2022 vis-à-vis 0.30x at the end of FY2021. The total debt/OPBDITA improved to 0.84x at the end of FY2022 from 1.3x in FY2021. With the cash and equivalents rising sharply to Rs. 1,606.9 crore at the end of FY2022, the net debt remained negligible. The interest coverage improved to 21x in FY2022 from 9.4x in FY2021 owing to the decline in interest rates as well as lowering of the working capital borrowings. With sizeable capex planned in the near term, the debt levels are expected to increase which is likely to moderate the leverage metrics although the same are expected to remain comfortable.

Credit challenges

Cyclical nature of sugar, chemicals and polyvinyl chloride (PVC) businesses – The sugar industry is a cyclical industry wherein the input price i.e., cane price is set by the government while the realisations are market-driven albeit with an MSP announced by the government that provides a minimum base for the selling price. The realisations are driven by sugar production, inventory and demand levels, while raw material availability is exposed to agro-climatic risks. The chemical and PVC businesses are also exposed to the vagaries of currency fluctuations and duty structures, apart from the 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 a 350-kld distillery in the last couple of years, wherein 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 and a 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 offtake and realisations will remain exposed to commodity cycles.

Significant capex planned in FY2023 - The total outflow of cash towards capex is expected to be around Rs. 2,800 crore in FY2023. The expected capex amounts have increased sharply this year due to high commodity prices and delays due to Covid-related challenges, coupled with changes in scope of some of these projects. The increase in capex has slightly impacted the returns on these projects and the payback period has increased for all the projects. Despite the slight increase in the payback period and reduction in returns, the overall returns continue to be healthy and shall be beneficial for the company in the long run. Further, the capex will increase the reliance on external debt, pushing up the net debt/OPBDITA to more than 1x for FY2023, though the same is likely to improve going forward. The opening cash surplus of ~Rs. 1600 crores coupled with internal generation of Rs. 1000-1200 crores will ensure limited reliance on external debt and the debt metrics are expected to remain comfortable.

Liquidity position: Strong

DCM Shriram's liquidity is strong given the large cash balances and unutilised working capital limits with expectation of healthy cash accruals. While the company will be embarking on a capex program with FY2023 witnessing a bunching up of capex, the cash generation is likely to be comfortable. ICRA expects DCM Shriram to meet its debt repayment obligations comfortably going forward as the repayments are comfortable vis-a-vis the cash flow from operations.

Rating sensitivities

Positive factors – The ratings of DCM Shriram Limited is unlikely to be upgraded till the company is able to significantly ramp up its scale of operations and diversify into less commoditized products

Negative factors – DCM Shriram's ratings 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 the 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. The company's operations are based in 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 company's sugar operations 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 66.52% of the shareholding being held by the promoter group as of March 31, 2022, while the rest is held by institutional investors and the public.

Key financial indicators (audited)

DCM Shriram Limited, Consolidated	FY2021	FY2022
Operating income (Rs. crore)	8308.2	9627.4
PAT (Rs. crore)	672.3	1066.1
OPBDIT/OI (%)	13.82%	18.62%
PAT/OI (%)	8.09%	11.07%
Total outside liabilities/Tangible net worth (times)	0.7	0.7
Total debt/OPBDIT (times)	1.3	0.8
Interest coverage (times)	9.4	21.0

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 (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating on		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					30 June 2022	12 May 2022	29 June 2021	6 July 2020	28 Jun 2019
1	Term loan*	Long term	544.24	544.4	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Positive)
2	Fund based	Long term	1069.0	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Positive)
3	Non-fund based	Short term	800.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial paper	Short term	600.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Fixed deposit	Long term	40.00	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	MAAA (Stable)	MAA+ (Stable)	MAA+ (Positive)
6	Unallocated	Long term/Short term	123.54	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Positive)/ [ICRA]A1+

**As of March 31, 2022*

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 analysing 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 are 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 Loans	FY2017-FY2020	-	FY2025-FY2030	544.24	[ICRA]AA+ (Stable)
-	Fund based-long term	-	-	-	1069.0	[ICRA]AA+ (Stable)
-	Fixed Deposit Program	-	-	-	40.0	[ICRA]AA+ (Stable)
-	Non fund based	-	-	-	800.0	[ICRA]A1+
Not placed	Commercial Paper	-	-	7- 360 days	600.0	[ICRA]A1+
	Unallocated	-	-	-	123.54	[ICRA]AA+ (Stable) / [ICRA]A1+

Source: *Company*

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
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 Holdings PTE Limited	100.00%	Full Consolidation
Bioseed Research Phillipiness Inc.	100.00%	Full Consolidation
Bioseed Research USA Inc.	100.00%	Full Consolidation
Shriram Polytech Limited	100.00%	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

Manish Dwivedi
+91 124 4545 814
manish.dwivedi@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

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.