August 01, 2023

DCM Shriram Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	828.76	1,160.31	[ICRA]AA+ (Stable); reaffirmed/assigned
Fund-based cash credit	1,069.00	1,069.00	[ICRA]AA+ (Stable); reaffirmed
Non-fund based	800.00	800.00	[ICRA]A1+; reaffirmed
Commercial paper	600.00	600.00	[ICRA]A1+; reaffirmed
Fixed deposit	40.00	40.00	[ICRA]AA+ (Stable); reaffirmed
Unallocated	39.02	7.47	[ICRA]AA+ (Stable)/[ICRA]A1+; reaffirmed
Total	**3,376.78**	**3,676.78**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings takes into account DCM Shriram Limited's (DCM Shriram) diversified business profile, being present in the chloro-vinyl, sugar, urea, agri-inputs, agro-chemical, Fenesta and cement segments. The ratings also derive comfort from the high operating efficiency of the chlor-alkali division wherein DCM is one of the largest caustic soda manufacturers in the country and has the advantage of captive power generation facilities at the Kota (Rajasthan) and Bharuch (Gujarat) plants, in addition to an arrangement to source renewable power from a 43-MW hybrid power plant (solar + wind). DCM is also a sizeable player in the sugar segment with 41,000 TCD of crushing capacities and integration into co-generation of power and manufacturing of ethanol. The other business segments, namely Shriram Farm Solutions (SFS) and Fenesta, have also demonstrated a healthy improvement in performance.

The ratings also factor in the comfortable financial risk profile of the entity, characterised by stable cash generation, low net leverage (net debt/OPBDITA) levels for FY2023 and a strong liquidity position, as indicated by the healthy cash balances and large unutilised working capital limits. Though the profits and cash accruals are expected to moderate in FY2024 owing to the significantly weaker chloro-vinyl profitability, the credit metrics are expected to remain healthy.

DCM reported healthy profitability in the chemical division, while the profitability of the Fenesta and Shriram Farm Solutions segments also improved in FY2023. The chemical division's profitability was aided by elevated realisations of caustic soda, despite rising power costs. The trend is set to reverse in FY2024 as the realisations witness a material correction with a moderation in the global demand and supply overhang due to new capacities coming online. These factors, coupled with the relatively elevated power costs, have exerted pressure on the contribution margins of the chloro-vinyl segment. Thus, the profitability of the chloro-vinyl segment is likely to moderate and the new capacities which are expected to commercialise in FY2024 are likely to take some time to ramp up.

The sugar division witnessed one-time costs in FY2023, which along with the increase in the state-approved price (SAP) for UP, exerted pressure on the profitability. With sugar prices remaining firm, the increase in volumes in both the sugar and the ethanol segments is likely to improve the profit generation from the sugar segment. The other two key segments – SFS and Fenesta - are expected to continue to generate healthy profits.

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

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 ongoing capex, 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 and are likely to improve as the capex starts yielding returns. However, with the annual cash generation expected to be in the range of Rs. 900-1,200 crore per year over the medium term, the company's liquidity profile is expected to remain strong. The company also has the financial flexibility and headroom to raise additional funding, if required, which can augment the company's liquidity position.

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

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 the chlor-alkali, PVC, sugar, urea, agri-inputs like bioseeds, agro-chemical, Fenesta and cement segments. DCM Shriram's energy-intensive businesses are located at Kota (Rajasthan) and Bharuch (Gujarat) with both the 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 the operations ensures the company's competitiveness in the chemical and 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 and Bharuch plants - DCM's chlor-alkali operations at Kota (524 TPD) and Bharuch (1345 TPD) are supported by a 225-MW coal-based captive power capacity. The company is in the process of setting up 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 supports 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 reducing its dependence on coal and finding green alternatives to reduce its carbon footprint and procure lower cost power.

Healthy scale of operations of 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 1,869 TPD. At present, DCM is 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 add value through the manufacturing of epichlorohydrin from chlorine and hydrogen peroxide from hydrogen.

Ramp-up of distillery operations to mitigate cyclicality of sugar segment - DCM Shriram has set up three distilleries with a combined capacity of 560 kld (out of this 260 KLD can operate on grains as well) which have been able to ramp up production at a healthy pace. 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.

Healthy financial risk profile - The capital structure of the company has remained robust, characterised by low gearing and leverage, healthy interest coverage and liquidity from large unutilised bank limits. The gearing of the company remains comfortable at 0.26x in FY2023. The interest coverage remained strong at 30.4x at the end of FY2023. 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, chemical and polyvinyl chloride (PVC) businesses – Sugar is a cyclical industry wherein the input price i.e., cane price, is set by the Government while the realisations are market-driven, though 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 the raw material availability is exposed to agro-climatic risks. However, the company has taken steps to mitigate the volatility in the earnings of the sugar segment by setting up 560-kld distilleries in the last couple of years, wherein the ethanol production has been ramped up significantly. 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.

The company is also undertaking downstream integration projects in the caustic soda segment with a 52,000-MTPA epichlorohydrin (ECH) project, an aluminium chloride capacity expansion project and a 56,100-MTPA hydrogen peroxide (H_2O_2) plant. These projects are expected to moderate the cyclicality of the caustic soda segment although the offtake of these products and the realisations will remain exposed to commodity cycles.

Significant capex being undertaken; to increase reliance on external debt - The company is undertaking sizeable project capex across the sugar and chemicals segments with a total outlay of Rs. 3,500 crore. The project capex incurred was around Rs. 2,200 crore in FY2023 and is expected to be around Rs. 1,300 crore in FY2024. There have been cost overruns in the projects due to high commodity prices, delays due to Covid-related challenges and changes in the scope of some of these projects. The higher capex has impacted the returns and the payback period has increased for all the projects. Nevertheless, the overall returns continue to be healthy. The cash/investment surplus of ~Rs. 900 crore at the end of FY2023, coupled with an annual internal generation in the range of Rs. 900-1,200 crore, will ensure limited reliance on external debt and the debt metrics are expected to remain comfortable.

Environmental and Social Risks

DCM manufactures caustic soda, which results in the production of chlorine as a by-product, the disposal of which remains a key challenge for the industry. The chemical sector in general remains exposed to the risk of tightening regulations for the production, handling and transport of chemical products with regards to safety and environmental impact, remedial measures for pollution and effluent treatment. Additionally, some products can face restrictions/substitution over time due to their hazardous nature and the availability of more environmentally-friendly products. Further, in the event of accidents, the liability for clean-up could be high for certain products.

ICRA notes the measures adopted by the company to reduce its carbon footprint and water conservation. The company is 12x water positive and ~42% of its total direct power consumption is green power. The company is sourcing fuel from alternative sources such as biomass and from wind solar hybrid renewable power project through a JV, to reduce dependence on coal. It is also promoting a circular economy in its operations by setting up projects like the recovery of anhydrous sodium sulphate from brine and manufacturing sulphate of potash from distillery ash in one of its subsidiaries.

Liquidity position: Strong

DCM Shriram's liquidity is expected to remain strong, given the large cash balances and unutilised working capital limits and expectations of healthy cash accruals. While the company is undertaking a large capex programme, which along with expected moderation in profitability in FY2024 is likely to exert some pressure on the cash generation, liquidity is likely to remain comfortable.

Rating sensitivities

Positive factors – The ratings of DCM Shriram Limited can be upgraded if the company is able to significantly ramp up its scale of operations and diversify into less commoditised products.

Negative factors – The ratings may be downgraded if the company's net debt/OPBDITA remains above 1.5x for a sustained period owing to weak cash generation. Capex plans/acquisitions resulting in higher debt on the books of the company may also trigger a downgrade.

Analytical approach

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

Note (for analyst reference only):

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 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 in its subsidiary. 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 at 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 has its headquarters in Hyderabad. The company is a public limited company with 66.52% of the shareholding being held by the promoter group as on March 31, 2023, while the rest is held by institutional investors and the public.

Key financial indicators (audited)

DCM Shriram Limited, Consolidated	FY2022	FY2023
Operating income (Rs. crore)	9627.4	11,547.0
PAT (Rs. crore)	1066.1	910.8
OPBDIT/OI (%)	18.62%	13.91%
PAT/OI (%)	11.07%	7.89%
Total outside liabilities/Tangible net worth (times)	0.70	0.73
Total debt/OPBDIT (times)	0.84	1.02
Interest coverage (times)	21.0	30.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore) as on 30 Jun 2023	Current rating (FY2024) Date & rating on 01 Aug 2023	Chronology of rating history for the past 3 years: Date & rating on 10 Mar 2023	06 Dec 2022	30 Jun 2022	12 May 2022	Date & rating in FY2022: 29 Jun 2021	Date & rating in FY2021: 6 Jul 2020
1	Term loan	Long term	1160.31	760.31	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)
2	Fund based cash credit	Long term	1069.00	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)
3	Non-fund based	Short term	800.00	-	[ICRA]A1+	[ICRA]A1+	[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+	[ICRA]A1+	[ICRA]A1+
5	Fixed deposit	Long term	40.00	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	MAAA (Stable)	MAA+ (Stable)
6	Unallocated	Long term/Short term	7.47	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Fund based - Cash Credit	Simple
Non-fund based	Very Simple
Commercial paper	Very Simple
Fixed deposit	Very Simple
Unallocated	Not applicable

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: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance /Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	**Term loans**	FY2019-FY2023	-	FY2025-FY2030	1160.31	[ICRA]AA+ (Stable)
-	**Fund-based cash credit**	-	-	-	1069.0	[ICRA]AA+ (Stable)
-	**Fixed deposit programme**	-	-	-	40.0	[ICRA]AA+ (Stable)
-	**Non-fund based**	-	-	-	800.0	[ICRA]A1+
INE499A14CU3	**Commercial paper**	Jul 11, 2023	7.20%	Sep 29, 2023	50.0	[ICRA]A1+
Unplaced	**Commercial paper**	-	-	7-360 days	550.0	[ICRA]A1+
-	**Unallocated**	-	-	-	7.37	[ICRA]AA+ (Stable) / [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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 Philippines Inc.	100.00%	Full Consolidation
Bioseed Research USA Inc.	100.00%	Full Consolidation
Shriram Polytech Limited	100.00%	Full Consolidation
DCM Shriram ProChem Limited	100.00%	Full Consolidation
DCM Shriram Bio Enchem Limited	100.00%	Full Consolidation
DCM Shriram Ventures Limited	100.00%	Full Consolidation
Shriram Agsmart Limited	100.00%	Full Consolidation

Source: Company

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