

August 30, 2024

## 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
Long-term fund-based – Term loan	1160.31	1222.50	[ICRA]AA+ (Stable); reaffirmed and assigned for enhanced amount
Long-term fund-based – Cash credit	1069.0	1299.00	[ICRA]AA+ (Stable); reaffirmed and assigned for enhanced amount
Short-term non-fund based limits	800.0	800.0	[ICRA]A1+; reaffirmed
Long-term/short-term – Unallocated Limits	7.47	65.28	[ICRA]AA+ (Stable)/[ICRA]A1+; reaffirmed and assigned for enhanced amount
Commercial paper	600.0	600.0	[ICRA]A1+; reaffirmed
Fixed deposits	40.0	40.0	[ICRA]AA+ (Stable); reaffirmed
<b>Total</b>	<b>3676.78</b>	<b>4026.78</b>	

\*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 including ethanol, fenesta building systems and agri-inputs (including agro-chemical, urea and bioseed) segments. The diversification in the business model has aided the company when the chemicals business has been impacted, and the OPBDITA has been supported by the sugar, fenesta building systems and Shriram Farm Solution (SFS) 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 its Kota (Rajasthan) and Bharuch (Gujarat) plants, in addition to an arrangement to source renewable power from a 44 MW (peak) hybrid power plant (solar + wind), which makes DCM one of the low-cost producers in the country. However, this segment has been facing headwinds owing to pressure on realisations which has impacted the profit generation materially. 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 including grain based. The contribution from the sugar division also improved with the increase in ethanol sales and elevated sugar realisations even as the state advised price (SAP) was hiked. The other business segments, namely Shriram farm solutions (SFS) and fenesta building systems, have also demonstrated a healthy improvement in performance and have started contributing meaningfully to the overall OPBDITA generation.

The ratings also factor in the comfortable financial risk profile of the entity, characterised by stable cash generation, and a comfortable liquidity position, as indicated by the healthy cash balances and large unutilised working capital limits. The profits and cash accruals have moderated in FY2024 owing to the significantly weaker profitability in the chemicals business, and the same are likely to remain under pressure in FY2025 as well. This, coupled with the partially debt-funded capex, will result in weakening of the debt metrics to some extent, although these are likely to remain comfortable with expectations of improvement thereafter.

DCM reported moderate profitability in the chemical division, while the profitability of the Sugar, fenesta building systems and Shriram Farm Solutions segments improved in FY2024. The chemical division's profitability was impacted by muted realisations of caustic soda and rising power costs. While the power costs have moderated, the realisations remain subdued, albeit with a slight improvement, the profit generation from this segment is likely to remain lower than historical levels.

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, significant ongoing capex, will increase the company's reliance on external debt and is likely to moderate the leverage metrics in the near 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. 800-1,200 crore per year over the medium term, the company's liquidity profile is expected to remain comfortable with available cash balances and buffer in working capital limits. 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.

The Stable outlook on the long-term rating reflects ICRA's expectation of comfortable cash generation post FY2025 with likely improvement in the chemicals segment. However, even for FY2025, while the credit profile will moderate to some extent, the same will remain comfortable.

## 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 including ethanol, fenesta building systems and agri-inputs (including agro-chemicals, urea and bio seed) 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, leading to 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 (2225 TPD) are supported by a 345-MW coal based captive power capacity and 44 MW (peak) renewable power plant. The company has commissioned 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, providing healthy profitability from the segment. However, in the past, high coal prices have impacted the cost dynamics of the captive power plant which have since moderated, and the company is finding green alternatives to reduce its carbon footprint and procure lower cost power.

**Profitable scaling up of operations in the Fenesta Building Systems and SFS segments** - The company has been able to scale up its Fenesta and SFS businesses with healthy profitability levels. In FY2024, the fenesta segment reported a top line of Rs. 824 crore with segmental profits of Rs. 145 crore, while the same for SFS was around Rs. 1186 crore and Rs. 221 crore respectively. The company is making efforts to increase its product profile in the fenesta segment which is likely to lead to healthy growth in turnover going forward, while maintaining a steady growth in the segmental profits. For SFS, top line and profitability are expected to grow at a steady pace, thus making these segments important drivers for the overall consolidated profitability going forward.

**Ramp-up of distillery operations to mitigate cyclicity 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 prices of sugar and cane.

**Healthy financial risk profile** - The capital structure of the company has remained healthy, characterised by a low gearing of 0.32x in FY2024. This which coupled with comfortable debt metrics like the interest coverage ratio remaining strong at 11.3x at the end of FY2024, translated into a comfortable financial risk profile for DCM Shriram. With sizeable capex amid pressure on profit generation, the debt levels have increased which is likely to moderate the leverage metrics to some extent with net debt/OBPDITA exceeding 1.5x for FY2025; although, the same is expected to improve going forward and will 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 an MSP by the Government 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 cyclicity 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) plant a recently commissioned aluminium chloride capacity expansion project and a 52,500-MTPA hydrogen peroxide (H<sub>2</sub>O<sub>2</sub>) plant. These projects are expected to moderate the cyclicity 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 was undertaking a sizeable capex, primarily across the sugar and chemicals segments with a total outlay of Rs. 3,200 crore which was largely completed by FY2024. Thereafter, capex is expected to be ~Rs 600-700 crores each year along with some maintenance capex. The capex intensity has remained elevated which moderated the company's profitability profile and is likely to continue to exert pressure on the debt metrics in FY2025. However, the profitability is expected to improve leading to healthy debt metrics going forward.

### 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 ~43% of its total direct power consumption is green power. The company is sourcing fuel from alternative sources such as biomass to reduce dependence on coal. It is also promoting 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.

### Liquidity position: Adequate

DCM Shriram's liquidity is expected to remain adequate, given the large cash balances and unutilised working capital limits and expectations of comfortable cash accruals, amid elevated capex levels.

## Rating sensitivities

**Positive factors** – The ratings of DCM Shriram 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Chemicals</a> <a href="#">Sugar</a> <a href="#">Fertilizers</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are 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 agriculture-value chain (sugar including ethanol, agro-chemicals, seeds and urea) and the chloro-vinyl chain (chlor-alkali and PVC). The company is also involved in certain other related businesses to take advantage of vertical integration, such as fenesta building system (UPVC doors and windows, aluminium windows and façade), 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 company’s bio seed division 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, 2024, while the rest is held by institutional investors and the public.

## Key financial indicators (audited)

DCM Shriram Limited, Consolidated	FY2023	FY2024
Operating income	11,547.0	10,922.5
PAT	910.8	447.1
OPBDIT/OI	13.91%	9.07%
PAT/OI	7.89%	4.09%
Total outside liabilities/Tangible net worth (times)	0.73	0.77
Total debt/OPBDIT (times)	1.02	2.10
Interest coverage (times)	30.4	11.3

Source: company, ICRA Research; All ratios as per ICRA’s calculations; Amounts in Rs. crore; 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	Type	Amount Rated (Rs Crore)	Current (FY2025)		Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loan	Long-term	1222.50	Aug 30, 2024	[ICRA]AA+ (Stable)	Aug 01, 2023	[ICRA]AA+ (Stable)	May 12, 2022	[ICRA]AA+ (Stable)	Jun 29, 2021	[ICRA]AA+ (Stable)
							Jun 30, 2022	[ICRA]AA+ (Stable)		
							Dec 06, 2022	[ICRA]AA+ (Stable)		
							Mar 10, 2023	[ICRA]AA+ (Stable)		
Cash credit	Long-term	1299.00	Aug 30, 2024	[ICRA]AA+ (Stable)	Aug 01, 2023	[ICRA]AA+ (Stable)	May 12, 2022	[ICRA]AA+ (Stable)	Jun 29, 2021	[ICRA]AA+ (Stable)
							Jun 30, 2022	[ICRA]AA+ (Stable)		
							Dec 06, 2022	[ICRA]AA+ (Stable)		
							Mar 10, 2023	[ICRA]AA+ (Stable)		
Non-fund based limits	Short-term	800.0	Aug 30, 2024	[ICRA]A1+	Aug 01, 2023	[ICRA]A1+	May 12, 2022	[ICRA]A1+	Jun 29, 2021	[ICRA]A1+
							Jun 30, 2022	[ICRA]A1+		
							Dec 06, 2022	[ICRA]A1+		
							Mar 10, 2023	[ICRA]A1+		
Unallocated Limits	Long-term/Short-term	65.28	Aug 30, 2024	[ICRA]AA+ (Stable)/ [ICRA]A1+	Aug 01, 2023	[ICRA]AA+ (Stable)/ [ICRA]A1+	May 12, 2022	[ICRA]AA+ (Stable)/ [ICRA]A1+	Jun 29, 2021	[ICRA]AA+ (Stable)/ [ICRA]A1+
							Jun 30, 2022	[ICRA]AA+ (Stable)/ [ICRA]A1+		
							Dec 06, 2022	[ICRA]AA+ (Stable)/ [ICRA]A1+		
							Mar 10, 2023	[ICRA]AA+ (Stable)/ [ICRA]A1+		
Commercial Paper	Short-term	600.0	Aug 30, 2024	[ICRA]A1+	Aug 01, 2023	[ICRA]A1+	May 12, 2022	[ICRA]A1+	Jun 29, 2021	[ICRA]A1+

							Jun 30, 2022	[ICRA]A1+		
							Dec 06, 2022	[ICRA]A1+		
							Mar 10, 2023	[ICRA]A1+		
<b>Fixed Deposits</b>	Long-term	40.0	Aug 30, 2024	[ICRA]AA+ (Stable)	Aug 01, 2023	[ICRA]AA+ (Stable)	May 12, 2022	[ICRA]AA+ (Stable)	Jun 29, 2021	[ICRA]AA+ (Stable)
							Jun 30, 2022	[ICRA]AA+ (Stable)		
							Dec 06, 2022	[ICRA]AA+ (Stable)		
							Mar 10, 2023	[ICRA]AA+ (Stable)		

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term fund-based – Cash credit	Simple
Short-term non-fund based limits	Very Simple
Long-term/short-term – Unallocated Limits	NA
Commercial paper	Very Simple
Fixed deposits	Very 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: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based – Term loan	FY2019-FY2023	-	FY2025-FY2030	1222.50	[ICRA]AA+ (Stable)
NA	Long-term Fund-based – Cash credit	NA	NA	NA	1299.00	[ICRA]AA+ (Stable)
NA	Short-term Non-fund based limits	NA	NA	NA	800.0	[ICRA]A1+
NA	Long-term/Short-term – Unallocated Limits	NA	NA	NA	65.28	[ICRA]AA+ (Stable)/[ICRA]A1+
INE499A14CY5	Commercial Paper	June 13, 2024	7.47%	Sep 11, 2024	100.0	[ICRA]A1+
Unplaced	Commercial Paper	-	-	7-360 days	500.0	[ICRA]A1+
NA	Fixed Deposits	NA	NA	NA	40.0	[ICRA]AA+ (Stable)

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	Ownership	Consolidation Approach
Bioseed India Limited	100.00%	Full Consolidation
DCM Shriram Infrastructure Limited	100.00%	Full Consolidation
DCM Shriram Credit and Investments Limited	100.00%	Full Consolidation
DCM Shriram Aqua Foods Limited	100.00%	Full Consolidation
Fenesta India Limited	100.00%	Full Consolidation
DCM Shriram Foundation	100.00%	Full Consolidation
Hariyali Rural Ventures Limited	100.00%	Full Consolidation
Shridhar Shriram Foundation	100.00%	Full Consolidation
Shriram Polytech Limited	100.00%	Full Consolidation
Shriram Bioseed Ventures Limited	100.00%	Full Consolidation
Bioseeds Holdings Pte. Ltd.	100.00%	Full Consolidation
Bioseed Research Philippines Inc.	100.00%	Full Consolidation
Bioseed Research USA Inc.	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
Renew Green (GJ Nine) Private Limited	31.20%	Full Consolidation
Renew Green (GJ Ten) Private Limited	31.20%	Full Consolidation

Source: AR FY2024

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