DCM Shriram Limited

Instrument	Amount in Rs. Crore^	Rating Action
Commercial Paper Programme	800 (enhanced from Rs 600 crore)	[ICRA]A1+ assigned/outstanding
Fund-Based, Long-Term Limits	870	[ICRA]AA- (Stable) outstanding
Long Term Loans	96.86	[ICRA]AA- (Stable) outstanding
Non-Fund Based, Short-Term Limits	885.00	[ICRA]A1+ outstanding
Long-Term/Short-Term Unallocated	333.14	[ICRA]AA- (Stable)/[ICRA]A1+ outstanding
Fixed Deposit Programme	40	MAA- (Stable) outstanding

The rating of [ICRA]A1+ (pronounced ICRA A one plus) has been assigned for the Rs. 800 crore commercial paper programme (enhanced from Rs. 600 crore) of DCM Shriram Limited. ICRA has ratings outstanding of [ICRA]AA- (pronounced ICRA double A minus) with a stable outlook and [ICRA]A1+ for the Rs. 2,185 crore bank facilities. ICRA also has rating outstanding of MAA- (pronounced M double A minus) with a stable outlook for the Rs. 40 crore fixed deposit programme of the company.†

The ratings factor in the comfortable financial risk profile of the company characterised by healthy capital structure and comfortable debt protection metrics, its continuing healthy liquidity position and financial flexibility driven by healthy cash accruals in recent years. The company's liquidity position is also supported by significant unutilised fund-based bank limits and competitive funding costs. Despite the cash outflows for the company's capex programme of ~Rs. 914 crore (project capex of Rs. 725 crore + normal capex of Rs. 189 crore) during FY2016 and FY2017, the company's credit metrics are expected to remain at comfortable levels even as the company avails incremental debt of about Rs 500 crore. The ratings also consider 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 cyclical nature of sugar, chlor-alkali and PVC businesses, sensitivity of chemicals and PVC businesses' profitability to exchange fluctuations and import duty levels, 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 exposure to agro-climatic risks.

The profitability of the chloro Vinyl division was expected to be adversely impacted due to the decline in crude oil prices which was anticipated to lead to lower PVC realisations However due to a substantial PVC capacity in China being derived from coal/carbide route, realisations did not decline to the extent anticipated as Chinese prices acted as a floor. Additionally the realisations on Caustic Soda remained healthy owing to healthy domestic and global demand. Apart from the existing operations, the company is commissioning its enhanced Caustic Soda capacities (from 450 TPD to 915 TPD) at Bharuch in Q1 FY2017 as against an earlier timeline of Q2 FY2017 which is when the enhanced power generation capacities (from 55 MW to 110 MW) would get commissioned. The commissioning of additional caustic soda capacities is expected to aid the profitability of the company considering the healthy realisations as well the consistently high return on capital employed earned by this division.

The sugar division of the company has turned around in FY2016 owing to higher sugar realisations on account of global deficit expected in SY2016 as well as easing of domestic inventory levels and increase in recovery in Uttar Pradesh due to change in crop variety as well as suitable climate. Nevertheless the returns from this division are expected to remain muted even with the help of government incentives, due to the large working capital requirements and capital employed in the business. However the profitability is expected to be aided by the new cogeneration project being set up which would allow sales of an additional 16.40 MW of power and is expected to be commissioned by Q3 FY2017.

^ 100 lakh = 1 crore = 10 million

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

The Bioseed division continues to perform well domestically but the international business continued to face write-downs as products introduced in those markets are taking more time than expected for acceptability from customers, apart from adverse agro-climatic scenario in these countries. Both the Farm solutions and Bioseed division's profitability has been impacted by two consecutive years of monsoon stress in the country. Nevertheless, the fertiliser divisions' profitability should continue to remain stable. The diversified business profile of the company helps it sustain its profitability and return metrics despite adverse outlook in specific businesses in particular years. The RoCE of the company is expected to improve in the next 1-2 years due to commissioning of additional caustic soda capacities and improved outlook for the sugar division, which employs significant proportion of the capital of the company. The company would be completing its capex of about Rs 725 crore for expansion of its caustic soda capacity (at Bharuch) and the sugar cogeneration capacity by Q3 FY2017. While the balance sheet is not expected to be strained due to comfortable capital structure and limited increase in debt position, the company will face risks of residual project completion and ramp up of operations post project completion for the Bharuch project.

Going forward, ICRA anticipates that the performance of the chloro-vinyl division would remain healthy due to healthy growth in caustic soda demand and Chinese carbide capacities providing a floor to the PVC prices as has been demonstrated in the past one year. Further over the near term, the sugar division is expected to remain moderately profitable due to improved realisations, higher recovery and power sales. Nevertheless, despite the monsoon stress, the relatively stable performance of the company's agri-inputs divisions (urea, farm solutions, bioseed) diversify the risk of the cyclical businesses (chloro vinyl, sugar) to some extent. The liquidation of fixed assets of the Haryali Kisaan Bazaar division has progressed at a slower-than-expected pace and may take another 3-4 years. Despite the capex programme, the capital structure and debt coverage metrics are not expected to be adversely impacted due to anticipated healthy cash accruals. Weaker-than-anticipated performance of the sugar and chloro-vinyl division resulting in a deterioration of the key credit metrics and quantum of government support for the sugar operations will remain the key rating sensitivities.

Company Profile

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 engaged 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 chain of rural retail stores of the company, named Hariyali Kisaan Bazaar, was rationalised in 2012-13 (except the fuel stations which are operational). The company is a public limited company with 63.88% of the shareholding being held by the promoter group as of March 31, 2016, while the rest is held by institutional investors and the public.

In FY2016, the company reported a net profit of Rs. 297 crore on an operating income of Rs. 5,841 crore as against a net profit of Rs. 211 crore on an operating income of Rs. 5,639 crore in FY2015.

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