DCM Shriram Limited

Instrument	Amount in Rs. Crore^	Rating Action
Fund-Based, Long-Term Limits	870 (Reduced from Rs. 1,100 crore)	Upgraded from [ICRA]A+ (Stable) to [ICRA]AA- (Stable)
Long Term Loans	96.86	Upgraded from [ICRA]A+ (Stable) to [ICRA]AA- (Stable)
Long-term Debt Programme	10	[ICRA]A+ (Stable) rating withdrawn
Non-Fund Based, Short-Term Limits	885.00 (enhanced from Rs 884.90 crore)	Reaffirmed at [ICRA]A1+
Short-Term Loans	Nil (reduced from Rs 203.24* crore)	-
Long-Term/Short-Term Unallocated	333.14 (enhanced from Rs nil earlier)	[ICRA]AA- (Stable)/[ICRA]A1+ assigned
Commercial Paper Programme	600	Reaffirmed at [ICRA]A1+
Fixed Deposit Programme	40	Upgraded from MA+ (Stable) to MAA- (Stable)

**includes unallocated limits*

The rating for the Rs. 966.86 crore long-term bank facilities (reduced from Rs. 1,196.86 crore) of DCM Shriram Limited has been upgraded from [ICRA]A+ (pronounced ICRA A plus) to [ICRA]AA- (pronounced ICRA double A minus); the outlook on the long-term rating is Stable. The rating for the Rs. 885.00 short-term bank facilities (reduced from Rs. 1,088.14 crore) and the Rs. 600 crore commercial paper programme of the company has also been reaffirmed at [ICRA]A1+ (pronounced ICRA A one plus). Ratings of [ICRA]AA-/[ICRA]A1+ were assigned to long-term/short-term unallocated limits of Rs 333.14 crore of the company; the outlook on the long-term rating is Stable. The rating for the Rs. 40 crore fixed deposit programme of the company has been upgraded from MA+ (pronounced M A plus) to MAA- (pronounced M double A minus). The outlook on the fixed deposit program rating is Stable.[†] ICRA has also withdrawn the [ICRA]A+ (Stable) rating assigned to the Rs. 10.00 crore long term debt programme as there is no amount outstanding against this instrument.

The upgrade of rating reflects the improvement in the business risk profile of the company owing to healthy performance of the chloro vinyl division, expected early commissioning of enhanced caustic soda capacities and turnaround of the sugar division owing to recovery in sugar prices that is expected to be sustained in the medium term. 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 April/ May 2016 as against an earlier timeline of September 2016 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. Also the sugar division of the company has turned around in 9M FY2016 owing to higher sugar realisations on account of global deficit expected in SY2016 as well as easing of domestic inventory levels/ increase in recovery in Uttar Pradesh due to change in crop variety as well as suitable climate.

The ratings continue to reflect 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

^ 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

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.

While because of the improvement in sugar realisations and higher recovery, the performance of the sugar division has improved in 9M FY2016, 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 October/ November 2016.

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 October/ November 2016. 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 December 31, 2015, while the rest is held by institutional investors and the public.

In 9M FY2016, the company reported net profit of Rs. 246 crore on an operating income of Rs. 4,508 crore against net profit of Rs. 251 crore on an operating income of Rs. 4,330 crore in 9M FY2015. In FY2015, the company reported net profit of Rs. 211 crore on an operating income of Rs. 5,639 crore against a net profit of Rs. 242 crore on an operating income of Rs. 6,182 crore in FY2014.

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