**DCM Shriram Industries Limited**

September 18, 2021

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Ratings | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 706.29 (Reduced from 798.20) | CARE A+; Stable (Single A Plus; Outlook: Stable ) | Reaffirmed |
| Short Term Bank Facilities | 91.27 (Reduced from 104.05) | CARE A1+ (A One Plus ) | Reaffirmed |
| **Total Bank Facilities** | **797.56 (Rs. Seven Hundred Ninety-Seven Crore and Fifty-Six Lakhs Only)** | | |
| Fixed Deposit | 15.00 | CARE A+ (FD); Stable [Single A Plus (Fixed Deposit); Outlook: Stable ] | Reaffirmed |
| **Total Medium Term Instruments** | **15.00 (Rs. Fifteen Crore Only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The reaffirmation of the ratings assigned to the bank facilities of DCM Shriram Industries Limited (DSIL) continue to derive strength from DSIL's diversified revenue profile which continues to provide alternate revenue streams and cushions against the cyclicality of the sugar business to a large extent. Further, the rating also draws comfort from DSIL's experienced promoters and management team and long track record of operations along with comfortable financial risk profile. These rating strengths are, however, partially offset by the cyclical nature of the sugar industry, working capital intensive nature of operations, exposure to foreign currency fluctuation risk and regulated nature of the business.

Rating Sensitivities

*Positive Factors - Factors that could lead to positive rating action/upgrade:*

- Ability of the company to increase its scale of operations by more than 25% from its current levels on a sustained basis along with improvement in its PBILDT margins to 12% on sustained basis.
- Ability to improve the capital structure marked by overall gearing of less than 0.50x on a sustained basis.

*Negative Factors- Factors that could lead to negative rating action/downgrade:*

- Decline in profitability margins as marked by PBILDT margin below ~8% on a sustained basis.
- Total debt/EBITDA over 4x on a sustained basis.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Experienced promoters and management team with long track record***: An experienced team of directors looks after the affairs of DSIL which is headed by Mr Alok B Shriram (SMD & CEO). He is assisted by his brother Mr. Madhav B Shriram (MD), in looking after the overall business of the company. The directors have an experience of over two decades. They are assisted in unit operations by a team of senior professionals.

***Diversified revenue streams mitigating the impact of volatility in sugar prices***: DSIL has been gradually de-risking its business model over the years through increased contribution from chemicals (capacity of 19,455 tonnes p.a.) and rayon segments (capacity of 9855 tonnes p.a.). DSIL's sugar division is also fully integrated with forward integration into cogeneration (capacity of 94 MW p.a.) and distillery operations (capacity of 52,500 K.L p.a) that de-risk the core sugar business of the company to a large extent. DSIL is also engaged in bottling operations of potable liquor for Pernod Recard India Private Ltd for few of its brands. The bottling operations were temporarily impacted due to shut down in FY21 (refers to period from April 01 to March 31). These were resumed later and are now operating at normal level. During FY21, the sugar segment (including power & alcohol) contributed 58.51% to TOI, followed by 19.21% from rayon division and 22.29% from chemical division. The company has ongoing capex in the distillery, sugar, rayon and chemicals segment. Distillery's capacity is being increased to 215 KLPD from 150 KLPD and modernization work is being done in the sugar segment. Higher plant capacity will enable the Unit to operate upto 100% "B" Heavy molasses basis and provide complete flexibility for optimizing profit. During FY20 about 23% of the sugar crushing was on "B" Heavy basis which went up to 44% during FY21. DSIL has plans to further increase the same to 70% in FY22. In chemicals segment, the company is expanding capacities for Ortho Chloro Toluene / Toluene derivatives and in rayon segment, capacity is being expanded along with installation of a dipping unit. The production and sales in the rayon division during Q1FY21 were low as demand was affected due to lower off-take in automobiles segment in light of COVID-19. However, from Q2FY21 the rayon market picked up with restarting of tyre plants worldwide and pick- up in automobile demand. Further, DSIL also commenced country liquor production from Nov 2020 to utilize the reserved molasses in-house and to take benefit of the new molasses policy.

***Comfortable financial risk profile***: In FY21, DSIL achieved total operating income of Rs.1955.57 crore which increased by ~8% from Rs.1816.31 cr. in FY20 despite the COVID-led disruptions in some of the segments dealt with by the company. The increase in total income from operations is primarily due to increased sales in the sugar segment from Rs.677.51 crore in FY20 to Rs.824 crores in FY21, mainly on account of higher quantity sold and higher realizations, especially in the export segment. The sales contribution from the chemicals segments also increased as the company added new customers during the year and witnessed higher demand, majorly due to the shift of demand from China to India, besides higher contract manufacturing. The PBILDT margins however, declined slightly in FY21, from 9.28% in FY20 to 8.45% in FY21, mainly on account of higher raw material costs and higher selling expenses incurred during the year. The selling expenses increased from 1.9% of total operating income in FY20 to 2.22% of total operating income in FY21 mainly on the back of higher commissions paid to agents during the year. These commissions were higher as the company had to pay country liquor agents in FY21 and this segment was started in FY21 only. Further in Q1FY22, DSIL registered a growth of 15% in its total operating income. Total PBILDT also stood at Rs 38.58 crore as against Rs 26.42 crore in similar period in last year
The capital structure of the company improved, with debt to equity and overall gearing ratios of 0.35x and 0.91x, respectively, as on March 31, 2021 (PY: 0.48x and 1.20x, respectively, as on March 31, 2020). The improvement was mainly on account of lower term debt outstanding at the end of the year with scheduled term debt repayments and lower working capital borrowings outstanding at the end of the year. The debt coverage indicators also improved on account of lower total debt at the end of the year and lower interest costs incurred. The company also prepaid a high interest-bearing term loan amounting to Rs.11 crore. during the year, on account of sufficient cash flow generation. The company has ongoing capex in the distillery, sugar, rayon and chemicals segment. The total cost to be spent on these capex in FY22 stands at Rs.124.30 cr. The company financed these capex from term loans of Rs.105.70 cr. and financial closure for all of this has already been achieved and balance funding will be done by internal accruals. These projects are likely to get commissioned in FY22 itself. Further, DSIL has rationalized its interest cost also during FY21 which is going to benefit the company in terms of lower interest outgo and the coverage indicators are expected to improve going ahead.

***Working capital intensive operations***: Sugar industry being seasonal in nature has high working capital requirements during the peak season which is from November to April. The companies have high working capital requirements during the peak season to procure their primary raw material, i.e., sugarcane and manufacture sugar during this period. Though the company has de-risked their model by reducing dependence on sugar to a large extent, the performance of the sugar segment may affect the overall profitability and the fund requirement. Average utilization at maximum level stood comfortable at ~70% and the company has sufficient buffer in the form of unutilized working capital facility available to it as on June 30, 2021.

***Exchange rate fluctuation risk***: DSIL is exposed to foreign exchange risk as export sale from the chemical & rayon segment together contribute approximately 21% of the total gross sales in FY21 (~22%% in FY20). DCM primarily sells in Europe, China, USA, and Singapore, etc. By expanding its geographical reach in rayon segment, DSIL has been able to better leverage the natural hedge it has in US$ by bringing down the Euro exposure in exports in earlier years, thereby insulating it to a large extent from fluctuations in Euro/US dollar exchange rate. It imports wood pulp from USA which is a raw material in rayon segment. DSIL has a natural hedge & apart from that company enters into forwards to hedge its forex exposure as & when required. DSIL had Rs.26.94 crore (receivables, net of forward contracts) foreign currency exposure as on March 31, 2021 (Rs.86.01 crore as on March 31, 2020) and the complete amount stood naturally hedged. The total foreign exchange gain in FY21 was Rs.5.92 crore (Rs.10.02 crore gain in FY20).

***Cyclical & Regulated nature of sugar business***: The industry is cyclical by nature and is vulnerable to the government policies for various reasons like its importance in the Wholesale Price Index (WPI) as it classifies as an essential commodity. The government on its part resorts to various regulations like fixing the raw material prices in the form of State Advised Prices (SAP) and Fair & Remunerative Prices (FRP). All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies.

***Industry Outlook:*** For SS2020-21, India's sugar output is expected to increase by 13% y-o-y to 30.9 million tonnes as per the estimates released by ISMA. The consumption is expected to be around 26 million tonnes and exports of about 6.8 million tonnes, leading to surplus of 8.7 million tonnes by end of season. The export of sugar in the current SS is supported by the surge in global prices following which the Government reduced the export subsidy from Rs.6/kg to Rs 4/kg on any sugar contracted for export on or after May 20, 2021. Currently it is expected India will end up exporting close to 6.8 or 7MT owing to recent surge in international prices. For next season SS21-22, sugar production is expected to remain stable y-o-y at 31 million tonnes and export sentiments also look strong in the wake of tight global supply scenario. Further, with government's push toward boosting ethanol capacities, diversion of sugarcane / sugar juice towards the same has been reducing sugar output and thus rationalizing the sugar inventories in the country. The government has advanced 20% ethanol blending target from 2030 to 2025. Further, the government has announced remunerative ethanol pricing and incentive schemes (such as interest subvention) to build up capacities to achieve the same. It is believed that the with sugar inventories getting rationalised, demand-supply balance levelling out and considerable increase in ethanol sales, the cash flows of integrated sugar mills is going to enhance.

***Liquidity: Adequate:*** The liquidity profile of the company remains adequate with stable cash accruals from diversified revenue streams and current ratio of 1.29x as on March 31, 2020 against 1.23x on March 31, 2021. The company has high inventory days as manufacturing of sugar takes place during November to April, while sales take place uniformly during the complete year and also due to imposition of sales quota on sugar companies which led to high inventory days. The buyers are extended a credit period of 40-45 days while the creditors days are relatively high. Average utilization at maximum level stood comfortable at ~70% in the past 12 months ending June 30, 2021. The company generated healthy cash accruals of Rs.95.04 cr. in FY21 and has free cash and bank balance of Rs.3.42 cr. along with investments in mutual funds amounting to Rs.17.80 crore, as on June 30, 2021. Cane arrears stood nil as on Sep 13, 2021. Sugar stock as on June 30, 2021 stood at Rs.447.47 crores (1.58 lac QTL). As on June 30, 2021, the company has outstanding dues of export subsidy of Rs.22 crores. The company has a term debt obligation of Rs.71.77 cr. in FY22 out of which Rs.22 cr. has already been paid as on August 31, 2021 and the remaining can be comfortably paid out of the internal accruals.

**Analytical approach:** Standalone

**Applicable Criteria**
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Manufacturing Companies
Rating Methodology - Sugar Sector
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

**About the Company**

DSIL is a part of the Dr Bansi Dhar group, formed after the restructuring of the DCM group in 1990. DSIL is currently engaged in the manufacturing of sugar, alcohol, fine/organic chemicals and industrial rayon. It has two integrated manufacturing plants, Daurala Sugar Complex and Daurala Organics in Daurala, Meerut (U.P.) with a daily throughput of 12,500 tonnes crushed per day (TCD), a distillery with a capacity of 52,500 KL per annum, co-generation power plant with the capacity of 94 MW and organic/ fine chemicals plant with total installed capacity of 19,455 tonnes per annum as on March 31, 2021. The company has another manufacturing unit, 'Shriram Rayons' at Kota for the manufacturing and export of rayon tyre cord, yarn and fabric to tyre manufacturers. It has a total installed capacity for industrial fibres of 17055 tonnes per year which includes yarn production capacity, grey fabric and dipped fabric capacity.

DSIL has also ventured into defence equipment manufacturing to explore the opportunities following the Government of India's 'Make in India' initiative and opening up of defence production to private sector. In light of this, the company has entered into an agreement with Zyrone Dynamics Havacilik Danismanlik Ve Ar-Ge San. Tic. A.S. (ZD), a Turkish company, for technological support for two variants of UAVs and both the parties will support each other in marketing the products in India and globally. As per the agreement, DCM would subscribe to 30% of the capital of the foreign company comprising of 25715 shares at a total investment of just over USD 1.05 million (~Rs.8 cr.) in five tranches over a period of about a year, subject to necessary approval with regard to foreign investment under FEMA Regulations.

| Brief Financials (Rs. crore) | FY20 (A) | FY21 (A) |
|---|---:|---:|
| Total operating income | 1816.31 | 1955.57 |
| PBILDT | 168.46 | 165.26 |
| PAT | 95.96 | 65.89 |
| Overall gearing (times) | 1.20 | 0.91 |
| Interest coverage (times) | 3.78 | 4.16 |

*A: Audited*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

**Complexity level of various instruments rated for this company**: Annexure 4

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | - | - | November-2027 | 272.88 | CARE A+; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 433.41 | CARE A+; Stable |
| Non-fund-based-Short Term | - | - | - | 91.27 | CARE A1+ |
| Fixed Deposit | - | - | - | 15.00 | CARE A+ (FD); Stable |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1. | Fund-based - LT-Term Loan | LT | 272.88 | CARE A+; Stable | - | 1)CARE A+; Stable (28-Sep-20) | 1)CARE A+; Stable (18-Sep-19) | 1)CARE A+; Stable (20-Aug-18) |
| 2. | Fund-based - LT-Cash Credit | LT | 433.41 | CARE A+; Stable | - | 1)CARE A+; Stable (28-Sep-20) | 1)CARE A+; Stable (18-Sep-19) | 1)CARE A+; Stable (20-Aug-18) |
| 3. | Non-fund-based-Short Term | ST | 91.27 | CARE A1+ | - | 1)CARE A1+ (28-Sep-20) | 1)CARE A1+ (18-Sep-19) | 1)CARE A1+ (20-Aug-18) |
| 4. | Fixed Deposit | LT | 15.00 | CARE A+ (FD); Stable | - | 1)CARE A+ (FD); Stable (28-Sep-20) | 1)CARE A+ (FD); Stable (18-Sep-19) | 1)CARE A+ (FD); Stable (20-Aug-18) |
| 5. | Commercial Paper-Commercial Paper (Carved out) | ST | - | - | - | - | 1)Withdrawn (13-Sep-19) | 1)CARE A1+ (20-Aug-18) |

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA**

**Annexure 4: Complexity level of various instruments rated for this company**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Fixed Deposit | Simple |
| 2. | Fund-based - LT-Cash Credit | Simple |
| 3. | Fund-based - LT-Term Loan | Simple |
| 4. | Non-fund-based-Short Term | Simple |

**Annexure 5: Bank Lender Details**

Click here to view Bank Lender Details

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others* *are welcome to write to care@careratings.com for any clarifications.*

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