DCM Shriram Industries Limited

July 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	591.10 (Reduced from 651.24)	CARE A+; Stable	Reaffirmed
Short-term bank facilities	125.92 (Enhanced from 117.92)	CARE A1+	Reaffirmed
Fixed deposit	15.00	CARE A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities and instrument of DCM Shriram Industries Limited (DSIL) takes into account 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. Furthermore, the rating also draws comfort from DSIL's experienced promoters and management team and long track record of operations. The rating also derives comfort from the comfortable financial risk profile with profitability likely to remain healthy owing to steady sugar realisations and higher realisations in chemical and industrial fibre segments. However, these rating strengths are partially offset by the susceptibility of the revenues and profitability to the demand-supply dynamics, the susceptibility to agro-climatic conditions, and the cyclical and highly regulated nature of the industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability of the company to increase its scale of operations on a sustained basis along with improvement in its PBILDT margins to 12% on sustained basis.
- Total debt to EBITDA less than 2.6x on a sustained basis.
- Ability to improve the capital structure marked by overall gearing of less than 0.50x on a sustained basis

Negative factors

- Overall gearing greater than 1x on a sustained basis.
- Total debt/EBITDA over 4x on a sustained basis.

Analytical approach:

Standalone

Outlook: Stable

Stable outlook reflects that the DSIL is likely to maintain its market position and comfortable financial risk profile in the medium term backed by its integrated sugar business and other diversified revenue segments viz. chemical and rayon.

Detailed description of the key rating drivers:

Key strengths

Diversified revenue streams: DSIL has a diversified business model and over the years it has been increasing its exposure to other segments like chemicals (capacity of 21,145 tonnes p.a.) and rayon (capacity of 17,055 tonnes p.a.). DSIL's sugar division is fully integrated with forward integration into cogeneration and distillery operations that de-risk the core sugar business of the company to an extent. The integrated nature of operations mitigates the volatility in sugar prices to some extent. During FY23 (refers to period from April 01 to March 31), the sugar division (including power and alcohol) contributed 56.55% to the total operating income, followed by chemical division 21.82% and industrial fibres division 21.64%. During FY23, around 100% of sugar cane crushed was towards B heavy molasses as against 63% in FY22. The increase in total income from operations is primarily driven by increased sales in the sugar segment from ₹839.98 crores in FY22 to ₹943.58 crores in FY23 mainly on account

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

of higher realizations and increased sales in the chemical segment from ₹ 379.39 crores in FY22 to ₹455.08 crores in FY23 on account of higher domestic sales volume and realization as well. Parallelly, there was an increased focus on realizations in the agrochemical, fragrances and paint/ dye sectors. In FY23, DSIL achieved total operating income of ₹2,367.81 crore which increased by around 11% from ₹2,132.71 cr in FY22. However, the overall PBILDT margins remained rangebound between 7%-8% in FY23 mainly on account of higher raw material cost (owing to commodity inflation) in all segments.

Comfortable risk profile:
The capital structure of the company stood comfortable and improved marginally with long-term debt to equity and overall gearing ratios improved as on March 31, 2023 to 0.24x (PY: 0.34x) and 0.73x (0.91x) respectively. Also, interest coverage ratio as on March 31, 2023 improved with decreasing interest costs.
Going forward DSIL is not expected to incur substantial capex expense and rationalisation of its interest cos t is going to benefit the company in terms of lower interest outgo and the coverage and solvency indicators are expected to improve going ahead.

Key weaknesses

Working capital intensive operations: The 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. However, the company has de-risked its model by reducing dependence on sugar to a large extent. Current ratio declined to 1.17x (PY: 1.22x) as on March 31, 2023 and the company has sufficient buffer in the form of unutilised working capital facility available to it.

Exchange rate fluctuation risk: DSIL is exposed to foreign exchange risk as export sale from the chemical & rayon segment which together contributed approximately 23% of the total gross sales in FY23 (25% in FY22). DSIL primarily sells in Europe, China, USA, and Singapore, etc. It imports wood pulp from USA which is a raw material in rayon segment. DSIL has a natural hedge & apart from that, the company enters into forward contracts to hedge its forex exposure as and when required. DSIL had Rs. 99.26 crore (receivables) foreign currency exposure as on March 31, 2023 (₹80.22 cr as on March 31, 2022) and the complete amount stands naturally hedged.

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. DSIL's profitability, along with other UP-based sugar mills, continues to be vulnerable to the GoUP's policy on cane prices. The cane price is determined by the GoUP at the start of the crushing season. Thus, the company's performance can be impacted by a disproportionate increase in cane prices. Furthermore, its profitability remains vulnerable to the Government's policies on exports, MSP and remunerative ethanol prices. However, the recent measures taken by the Central Government and the GoUP supported sugar prices and the liquidity of sugar mills. Furthermore, healthy exports and higher diversion of sucrose towards ethanol in the recent years resulted in favorable demand-supply dynamics in the country, thus resulting in improved realisations currently. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice by the industry is expected to help in curtailing the excess supply of sugar, resulting in lower volatility in sugar prices and cash flows from the sugar business.

Liquidity: Adequate

The liquidity profile of the company remains adequate with stable cash accruals from diversified revenue streams. The company has high inventory days as manufacturing of sugar takes place during November to April, while sales takes place uniformly during the complete year. The buyers are extended a credit period of 40-45 days while the creditors days are comparatively decreasing. Debtors and creditors as on April 30, 2023 are ₹51.98 crore (₹37.80 crore as on March 31, 2023) and ₹19.83 crore (₹20.32 crores as on March 31, 2023) respectively. Average utilization of the working capital limits at maximum level stood comfortable at around 77% in the past 12 months ended March 31, 2023. Current ratio declined to 1.18x (PY: 1.22x) as on March 31, 2023. The company generated healthy cash accruals of ₹96.15 cr in FY23 and has investments in Mutual Funds amounting to ₹28.35 crores, as on March 31, 2023. Gross cash accruals are expected to increase during FY24-FY26 and remain in the range of 130-160 crore. Against this, the company has repayment obligations of ₹76.01 crore, ₹69.07 crore and ₹45.71 crore for the years FY24, FY25 and FY26 respectively.

Environment, social, and governance (ESG) risks
Not Applicable

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch

Short Term Instruments
Manufacturing Companies
Sugar
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Sugar

DSIL is a part of Dr Bansi Dhar Group, formed after the restructuring of the DCM Group in 1990. DSIL is currently engaged in manufacturing of sugar, alcohol, organic chemicals and industrial fibre. It has two integrated manufacturing plants, Daurala Sugar Complex and Daurala Organics in Daurala, Meerut (U.P.) with daily throughout of 12,500 tonnes of sugarcane crushed per day (TCD), a distillery with a capacity of 215 KL per day, a co-generation power plant with the power capacity of 94 MW and organic/ fine chemicals plant with total installed capacity of 21,145 tonnes per annum (increased from 20,931 tonnes per annum) as on March 31, 2023. The company has another manufacturing unit, 'Shriram Rayons' at Kota for the manufacturing and export of rayon tyre cord, yarn and fabric to tyre manufacture₹ It has a total installed capacity for industrial fibres of 17,055 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 had 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 25,715 shares at a total investment of just over USD 1.05 million (around ₹8 crores) in five tranches over a period of about a year, subject to necessary approval with regard to foreign investment under Foreign Exchange Management Act (FEMA) Regulations. Until FY23, DSIL has invested ₹3.14 crore as on March 31, 2023, representing 9,797 shares i.e. 38% of total investment.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	2,132.71	2,357.69
PBILDT	151.80	149.49
PAT	65.74	60.26
Overall gearing (times)	0.91	0.73
Interest coverage (times)	3.78	4.47

A: Audited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit		-	-	-	15.00	CARE A+; Stable
Fund-based - LT-Cash Credit		-	-	-	448.80	CARE A+; Stable
Fund-based - LT-Term Loan		-	-	31/03/2028	142.30	CARE A+; Stable
Non-fund-based-Short Term		-	-	-	125.92	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	142.30	CARE A+; Stable	-	1)CARE A+; Stable (23-Sep-22)	1)CARE A+; Stable (18-Sep-21)	1)CARE A+; Stable (28-Sep-20)
2	Fund-based - LT-Cash Credit	LT	448.80	CARE A+; Stable	-	1)CARE A+; Stable (23-Sep-22)	1)CARE A+; Stable (18-Sep-21)	1)CARE A+; Stable (28-Sep-20)
3	Non-fund-based-Short Term	ST	125.92	CARE A1+	-	1)CARE A1+ (23-Sep-22)	1)CARE A1+ (18-Sep-21)	1)CARE A1+ (28-Sep-20)
4	Fixed Deposit	LT	15.00	CARE A+; Stable	-	1)CARE A+; Stable (23-Sep-22) 2)CARE A+; Stable (22-Jun-22)	1)CARE A+ (FD); Stable (18-Sep-21)	1)CARE A+ (FD); Stable (28-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments / facilities

Not Applicable

Annexure-4: Complexity level of the various instruments rated

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: Lender details

To view the lender wise details of bank facilities please click here

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

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