DCM Shriram Industries Limited

August 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	585.87 (Reduced from 591.10)	CARE A+ (RWN)	Continues to be on Rating Watch with Negative Implications
Short-term bank facilities	155.92 (Enhanced from 125.92)	CARE A1+ (RWN)	Continues to be on Rating Watch with Negative Implications
Fixed deposit	15.00	CARE A+ (RWN)	Continues to be on Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings for bank facilities and instrument of DCM Shriram Industries Limited (DSIL) continue to be on rating watch with Negative Implications with long term rating at CARE A+ and short-term ratings at CARE A1+. The rating watch continues considering possible impact of the company's announcement regarding Composite Scheme of Arrangement, which is submitted to the stock exchanges for their approval. In the Composite Scheme of Arrangement, the company's two business verticals, chemical undertaking and rayon undertaking (including defence and engineering projects) will be demerged into two different companies, on a going concern basis, while the residual undertaking comprising of sugar, alcohol and power would be retained in DSIL.Post restructuring DSIL, shall primarily have Sugar & Alcohol business as the Rayons and Chemicals businesses shall be demerged into separate Companies. Accordingly, DSIL shall have a lower scale of operations and also not have the diversification benefit it currently has. The profitability of Sugar & Alcohol business is cyclical and dependent on Govt. policies and also Govt. mandated cane price. In sugar season 2023-24, the profitability of all Sugar & Alcohol Companies was impacted due to cane price increases and impact of Govt. policies. Accordingly, the contribution of Sugar & Alcohol in the profitability of DSIL was comparatively lower, with Rayons and Chemicals business together contributing 54% of consolidated topline and 81% of the Profit before Interest, Depreciation, Lease and Taxes (PBILDT) . CARE Ratings Limited (CARE Ratings) will continue to monitor the developments related to the matter and its impact on the company's operational and financial performance and will resolve the watch as DSIL gets necessary approvals, and more clarity emerges on its impact on the company.

Ratings continue to derive strength from long track record of operations, diversified revenue streams, healthy profitability, and comfortable financial risk profile. 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

- The company's ability to increase its scale of operations on a sustained basis and improving profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins to 12% 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: Not applicable

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

Detailed description of 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 including chemicals (capacity of 21,463 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 company's core sugar business to an extent. The integrated nature of operations have been mitigating the volatility in sugar prices to some extent in the last years. In FY24 (refers to April 01 to March 31), the sugar division (including power and alcohol) contributed 47.19% to the total operating income (TOI), followed by chemical division 19.82%, and industrial fibres division 32.99% to gross total income. During Sugar Season 23-24, around 100% of sugar cane crushed was towards C heavy molasses as against 100% towards B Heavy in Sugar Season 22-23. The increase in total income from operations is primarily driven by increased sales in the Rayon segment from ₹471.91 crore in FY23 to ₹699.23 crore in FY24 on account of higher quantity as well as higher realisation.. In FY23, DSIL achieved TOI of ₹2,095.50 crore, which marginally declined by around 11% from ₹2,357.69 crore in FY23. However, overall PBILDT margins improved substantially to 11.32% in FY24, which usually range between 6% and 8% in last five years mainly considering higher sales realisations in Rayon segment.
CARE Ratings notes that there will be scaling down of operations with the current scheme of restructuring the company's operations and will monitor the changes in the revenue streams as better clarity emerges going forward.

Comfortable risk profile
The company's capital structure stood comfortable and improved marginally with long-texrm debt to equity and overall gearing ratios improved as on March 31, 2024 to 0.13x (PY: 0.23x) and 0.66x (0.73x), respectively. Also, interest coverage ratio of 6.67x (PY: 4.47x) as on March 31, 2024, improved with substantial improvement in operating profitability.
Going forward, DSIL is not expected to incur substantial capex expense and repay majority of its term loan in FY25, the coverage and solvency indicators are expected to improve going ahead. However, since the sugar busniess continues to have higher working capital owing to its nature of operations, the sugar busniess may have moderate leverage position and CARE Ratings will continue to monitor the scheme and accordingly take necessary actions once the scheme advances and more clarity emerges.

Key weaknesses

Working capital intensive operations
The sugar industry being seasonal in nature has high working capital requirements in the peak season, from November to April. The companies have high working capital requirements in the peak season to procure their primary raw material, sugarcane and manufacture sugar in this period. However, the company has de-risked its model by reducing dependence on sugar to a large extent. Current ratio remained at 1.18x (PY: 1.17x) as on March 31, 2024, and the company has sufficient buffer in the form of unutilised working capital facility available to it. Average inventory holding days has increased from 106 days to 137 days, leading to stretched working capital cycle to 125 days in FY24 (PY: 100 days). This is primarily as sugar companies produced higher sugar in the current SS owing to restrictions on producing and supplying ethanol and also sales are based on sugar sales quota orders of the Government. However, it is similar across Sugar Industry. The closing inventory of Sugar increased from ₹339.13 crore as on March 31, 2023 to ₹493.84 crore as on March 31, 2024, owing to lower Sugar Quota allocations and lower diversion of sugar towards production of ethanol.

Exchange rate fluctuation risk
DSIL is exposed to foreign exchange risk as export sale from the Chemical & Rayon segment contributed approximately 31.69% of the total gross sales in FY24 (22.74% in FY23). DSIL primarily sells in Europe, China, USA, and Singapore, among others. It imports wood pulp from USA, which is a raw material in rayon segment and toluene is imported in chemical segment. DSIL has a natural hedge and apart from that, the company enters forward contracts to hedge its forex exposure as and when required. DSIL had ₹187 crore (gross receivables) foreign currency exposure as on March 31, 2024 (₹140 crore as on March 31, 2023) which is partially hedged by forward contracts and partially naturally. The total foreign exchange gain in FY24 considering foreign exchange was ₹12.59 crore (₹6.76 crore gain in FY23). Total foreign exchange earned ₹631.53 crore and used ₹248.96 crore.

Vulnerable to agro-climatic risks, cyclical and regulated nature of sugar business
The industry is cyclical and vulnerable to the government policies for reasons including its importance in the wholesale price index (WPI) as it classifies as an essential commodity. The government, on its part, resorts to regulations such as 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, thus affecting profitability of the sugar companies. DSIL's profitability, and other Uttar Pradesh-based sugar mills, continue to remain vulnerable to the state government's policy on cane prices. Thus, the company's performance can be impacted by disproportionate increase in cane price in a particular year. The profitability remains vulnerable to the Government's policies on exports, MSP, and remunerative ethanol prices. In addition, the cyclicality in sugar production results in sugar price volatility. However, the sharp contraction in sugar prices is curtailed after the introduction of MSP by the Central Government in June 2018. Higher diversion of sucrose towards ethanol in the recent years resulted in favourable 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 company's liquidity profile remains adequate with stable cash accruals from diversified revenue streams. The company has high inventory days as sugar manufacturing takes place in November to April, while sales takes place uniformly in 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 May 30, 2024 are ₹29.83 crore (₹29.59 crore as on March 31, 2024) and ₹138.38 crore (₹152.44 crore as on March 31, 2024), respectively. Average utilisation of the working capital limits at maximum level stood comfortable at ~67% in the past 12 months ended March 31, 2024, for all division put together. However, the utilisation for sugar division alone stood higher at 83.61%. The company generated healthy cash accruals of ₹157.30 crore in FY24 and has investments in Mutual Funds amounting to ₹33.59 crore, as on March 31, 2024 (the company also has cash & bank balance of ₹18.76 crore as on March 31, 2024). As on June 30, 2024, the company has mutual fund investments of ₹36 crore and undrawn bank borrowings of ₹86 crore.

Environment, social, and governance (ESG) risks

Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Sugar
Financial Ratios – Non financial Sector
Short Term Instruments

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 sugar, alcohol, organics/Fine 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 21,463 tonnes per annum (increased from 21,145 tonnes per annum) as on March 31, 2024. The company has another manufacturing unit, 'Shriram Rayons' at Kota for manufacturing and exporting rayon tyre cord, yarn and fabric to tyre manufacturer. 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 entered 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. Per the agreement, DCM would subscribe to 30% of the capital of the foreign company comprising 25,715 shares at a total investment of just over USD 1.05 million (around ₹8 crore) in five tranches on milestone basis, subject to necessary approval regarding foreign investment under Foreign Exchange Management Act (FEMA) Regulations. Until FY24, DSIL has invested ₹3.14 crore as on March 31, 2024, representing 9,797 shares, 38% of total investment.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	2,357.69	2,095.50
PBILDT	149.49	237.27
PAT	60.26	114.94
Overall gearing (times)*	0.73	0.66
Interest coverage (times)	4.47	6.67

*excluding LC acceptances. A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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+ (RWN)
Fund-based - LT-Cash credit		-	-	-	499.80	CARE A+ (RWN)
Fund-based - LT-Term loan		-	-	31/03/2030	86.07	CARE A+ (RWN)
Non-fund-based-Short term		-	-	-	155.92	CARE A1+ (RWN)

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term loan	LT	86.07	CARE A+ (RWN)	-	1)CARE A+ (RWN) (23-Aug-23) 2)CARE A+; Stable (05-Jul-23)	1)CARE A+; Stable (23-Sep-22)	1)CARE A+; Stable (18-Sep-21)
2	Fund-based - LT-Cash credit	LT	499.80	CARE A+ (RWN)	-	1)CARE A+ (RWN) (23-Aug-23) 2)CARE A+; Stable (05-Jul-23)	1)CARE A+; Stable (23-Sep-22)	1)CARE A+; Stable (18-Sep-21)
3	Non-fund-based-Short term	ST	155.92	CARE A1+ (RWN)	-	1)CARE A1+ (RWN) (23-Aug-23) 2)CARE A1+ (05-Jul-23)	1)CARE A1+ (23-Sep-22)	1)CARE A1+ (18-Sep-21)
4	Fixed deposit	LT	15.00	CARE A+ (RWN)	-	1)CARE A+ (RWN) (23-Aug-23) 2)CARE A+; Stable (05-Jul-23)	1)CARE A+; Stable (23-Sep-22) 2)CARE A+; Stable (22-Jun-22)	1)CARE A+ (FD); Stable (18-Sep-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Note on complexity levels of 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 clarifications.

Contact Us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Ravleen Sethi Director **CARE Ratings Limited** Phone: +91-12-0445 2016 E-mail: ravleen.sethi@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Akhil Kumar Associate Director **CARE Ratings Limited** Phone: +91-12-0445 1986 E-mail: akhil.kumar@careedge.in Akanksha Bansal Lead Analyst **CARE Ratings Limited** E-mail: akanksha.bansal@careedge.in

About us:
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