DCM Shriram Industries Limited

September 23, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	651.24 (Reduced from 706.29)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	117.92 (Enhanced from 91.27)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**769.16 (₹ Seven hundred sixty-nine crore and sixteen lakh only)**		
Fixed deposit	15.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Total medium-term instruments	**15.00 (₹ 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 and instrument of DCM Shriram Industries Ltd (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 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 business.

Rating sensitivities

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

- 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 and interest cover improving to >4x on sustained basis.
- Total debt to EBITDA less than 2.6x on a sustained basis.
- Ability to improve the capital structure marked by an overall gearing of less than 0.50x on a sustained basis.

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

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

Detailed description of the key rating drivers

<u>Key rating strengths</u>

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

Diversified revenue streams: DSIL has been gradually de-risking its business model and over the years has been increasing its exposure to other segments like pharmaceutical intermediaries, chemicals (capacity of 20,931 tonnes p.a.) and rayon (capacity of 9,855 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

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

sugar prices to some extent. DSIL has changed the process of sugar production from Sulphitation to Defco Remelt Phosphofloatation (DRP) which has resulted in production of sugar of international standards, with improved efficiencies. The distillery capacity has been expanded to 215KLPD from 150KLPD and was operational from December 2021. The ethanol production in the year was the highest ever. During FY22, the sugar division (including power and alcohol) contributed 55.76% to the TOI, followed by rayon division 23.51% and chemical division 20.72%. During FY22, around 63% of sugar cane crushed was towards B heavy molasses as against the target of 70%. Going forward, the company plan to use 100% of sugar crushed towards B heavy molasses. In the Rayon segment, sales increased by 31% and the company also achieved highest-ever production during the year with increase in capacity utilisation. The chemical segment witnessed decline in exports sales and realisation on account of rationalisation of international prices and supply in global market.

Comfortable risk profile: In FY22, DSIL achieved total operating income of ₹2,132.71 crore which increased by around 9.4% from ₹1,948.92 crore in FY21 despite the global commodity pressure, supply-side restraints and COVID-led disruptions in some of the segments dealt with the company. The increase in sales was majorly on account of higher realisation and in improved sugar recovery in the sugar segment and improved sales and higher exports in the industrial fiber segment. However, the overall PBILDT margins remained rangebound between 7%-8% in FY22 mainly on account of higher raw material cost (owing to commodity inflation) in all segments.
In Q1FY23 DSIL registered 52.61% increase in the total operating income and a 25.03% increase in net profit compared to Q1FY22 on account of higher distillery capacity being operational in Q1FY23 and increase in sugar exports.

The capital structure of the company stood comfortable and improved marginally in FY22 with debt-to-equity ratio and overall gearing ratios of 0.34x and 0.91x as on March 31, 2022. Sugar being a seasonal industry, the inventories are at peak as on March-end and accordingly the working capital borrowings are also high.
Going forward DSIL is not expected to incur substantial capex expense as the current capacities are balanced to meet the expected demand and rationalisation of its interest cost is going to benefit the company in terms of lower interest outgo and the coverage indicators are expected to improve going ahead.

Key rating 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. The average utilisation in the last 12 months ending as on June 30, 2022 stood at around 68% (maximum utilisation stood at around 77%) and the company has sufficient buffer in the form of unutilised working capital facility available to it.

Exchange rate fluctuation risk: In FY22, Europe and China were the two major markets for the company, Europe accounts for 33.28% of the exports and China accounts for 31.79% of the exports. Given the current economic scenario and the European and Chinese economy are expected to witness economic slowdown / recession. With the market concentration in Europe and China DSIL may witness some slowdown in the demand going forward. However, the company is developing alternate markets by spreading to Asian & Latin America markets in the rayon division, thereby placing less reliance on European markets. It imports wood pulp from USA which is a raw material in rayon segment. By expanding its geographical reach, it has been able to better leverage the natural hedge it has in US$ by bringing down the Euro exposure in exports, thereby insulating it to a large extent from fluctuations in Euro/US$ exchange rate. For the unhedged portion (around 10%) the company enters into a plain vanilla forward rate contract. DSIL had ₹80.22 crore (receivables) foreign currency exposure as on March 31, 2022 (₹26.94 cr as on March 31, 2021) and the complete amount stands naturally hedged. The total foreign exchange gain in FY22 on account of foreign exchange was ₹9.59 crore (₹5.91 crore gain in FY21).

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. DSIL's profitability, along with other Uttar Pradesh-based sugar mills, continues 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 any particular year. Furthermore, the profitability remains vulnerable to the Government's policies on exports, MSP and remunerative ethanol prices. In current season, in UP-SAP was increased by ₹ 25/quintal which can limit the profitability but firmed up domestic prices are likely to offset this risk to some extent. In addition, the cyclicality in sugar production results in volatility in sugar prices. However, the sharp contraction in the sugar prices is curtailed after the introduction of MSP by the Central Government in June 2018. 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 and current ratio of 1.23x as on March 31, 2021 against 1.22x on March 31, 2022. 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. The average utilisation of the working capital limits at maximum level stood comfortable at around 77% in the past 12 months ended June 30, 2022. The company generated healthy cash accruals of ₹103.39 cr in FY22 and has investments in Mutual Funds amounting to ₹37 cr, as on August 31, 2022. The cane arrears as on June 30, 2022 stood at Nil. Sugar stock as on June 30, 2022 stood at ₹264.07 crore. The outstanding term debt stood at ₹197.53 cr as on March 31, 2022 out of which ₹ 30.93 cr has already been paid and the balance term loan as on August 30, 2022 stood at ₹. 166.60 cr. DSIL is expected to generate around ₹110 crore accrual going forward in the medium term against which they have debt repayments of ₹ 74.44 crore and ₹ 71.44 crore in FY23 and FY24.

Analytical approach: Standalone

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

Sugar

Manufacturing companies

About the Company

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 (expanded from 150KL per day in FY21), a co-generation power plant with the power capacity of 94 MW and organic/ fine chemicals plant with total installed capacity of 20,931 tonnes per annum as on March 31, 2022. 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 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 25715 shares at a total investment of just over USD 1.05 million (around ₹8 cr) 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 FY22, two tranches totaling US $241,068 representing 5,878 shares i.e. 8.92% have already been subscribed.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total operating income	1,948.92	2,132.71	711.42
PBILDT	158.60	151.80	43.96
PAT	65.89	65.74	16.23
Overall gearing (times)	0.91	0.91	NA
Interest coverage (times)	3.99	3.78	4.19

A: Audited, UA: Un-Audited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Note 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	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
Fund-based - LT-Term loan		-	-	March 2028	202.44	CARE A+; Stable
Fund-based - LT-Cash credit		-	-	-	448.80	CARE A+; Stable
Non-fund-based-Short term		-	-	-	117.92	CARE A1+
Fixed deposit		-	-	-	15.00	CARE A+; Stable

Annexure-2: Rating history of 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	202.44	CARE A+; Stable	-	1)CARE A+; Stable (18-Sep-21)	1)CARE A+; Stable (28-Sep-20)	1)CARE A+; Stable (18-Sep-19)
2	Fund-based - LT-Cash credit	LT	448.80	CARE A+; Stable	-	1)CARE A+; Stable (18-Sep-21)	1)CARE A+; Stable (28-Sep-20)	1)CARE A+; Stable (18-Sep-19)

3	Non-fund-based-Short term	ST	117.92	CARE A1+	-	1)CARE A1+ (18-Sep-21)	1)CARE A1+ (28-Sep-20)	1)CARE A1+ (18-Sep-19)
4	Fixed deposit	LT	15.00	CARE A+; Stable	1)CARE A+; Stable (22-Jun-22)	1)CARE A+ (FD); Stable (18-Sep-21)	1)CARE A+ (FD); Stable (28-Sep-20)	1)CARE A+ (FD); Stable (18-Sep-19)
5	Commercial paper-Commercial paper (Carved out)	ST	-	-	-	-	-	1)Withdrawn (13-Sep-19)

*Long term/Short term.

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 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 for this company

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

Note on complexity levels of the rated instruments: CARE Ratings Limited (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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