DCM Shriram Industries Ltd

February 15, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Commercial Paper (CP) issue*	75 (Rs. Seventy Five crore only)	**CARE A1+ (A One Plus)**	**Assigned**

** carved out of the sanctioned working capital limits of the company.*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the commercial paper issue of DCM Shriram Industries Ltd (DSIL) takes into account the comfortable financial risk profile driven by stable profitability from its sugar division and other segments leading to overall improvement in the capital structure & coverage indicators. Further, rating also draws comfort from DSIL's experienced promoters and management team and long track record of operations along with its diversified (non-sugar) business profile which continues to provide alternate revenue streams and cushions against the cyclicality of the sugar business to a large extent. The rating continues to factor in the favourable outlook for sugar business in the medium term, supported by the recent hike in import duty by the GoI and a tight domestic stock situation which is likely to support the sugar prices in the near term. However, these rating strengths are partially offset by the cyclical nature of the sugar industry, working capital intensive nature of operations, volatility in profitability due to exchange rate fluctuation and regulated nature of business.
Going ahead, the ability of the company to improve profitability and its capital structure amidst highly regulated industry environment shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths
Improved financial risk profile:
During FY17, the total operating income of DSIL registered 24% growth y-o-y coupled with the PBILDT margin improving from 7.60% in FY16 to 13.29% in FY17. The growth was primarily driven by the growth in revenues from the sugar segment which got a thrust both in volume and improvement in sugar prices (on the back of short supply following drought in Maharashtra and Karnataka) & enhanced performance from the other business segments. Furthermore, with the sugar prices remaining steady during H1FY18, the financial profile of the company continues to remain comfortable with the total income of Rs.906.86 crore & PBILDT margin of 10.86%. The enhanced cash profits were utilized to prepay the long-term debt & also make the early payment for cane dues to the farmers for the current sugar season. There are no cane arrears as on Jan 28, 2018.
The overall gearing has improved from 1.88x as on March 31, 2016 to 1.25x as on March 31, 2017 on account of prepayment of long-term loans during FY17. It further improved to 0.42x as on Sep 30, 2017 which was basically due to repayment of loan & lower utilization of working capital requirements.

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 Tilak Dhar (CMD). He is assisted by his brothers Mr Alok B Shriram (VC & DMD) and Mr Madhav B Shriram (DMD), in looking after the overall business of the company. The directors have an experience of over three decades. They are assisted in unit operation 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 pharmaceutical intermediaries, chemicals and rayon.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

During FY17, the sugar segment (including Power & alcohol) contributed 60.66% followed by rayon division 23.69%, chemical division 15.65%. 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 some extent.

Stable Industry Outlook: With sugarcane production coming down for two successive years, 2015-16 and 2016-17, sugar production has moved downwards from 28.3 mn tonnes in 2014-15 to 25.1 mn tonnes in 2015-16 and further to 20.3 mn tonnes in 2016-17 (as per ISMA). Lower availability of sugarcane for crushing due to back-to-back drought situation in Maharashtra and Karnataka has dragged down sugar output. According to second advanced estimates released by the Indian Sugar Mills Association (ISMA), India is likely to produce around 26.1 mn tonnes of sugar in the upcoming sugar season (October 2017-September 2018) as compared to about 20.3 mn tonnes of sugar estimated for 2016-17. This implies a growth of 29% on a y-o-y basis with majority of share coming from Uttar Pradesh, Maharashtra and Karnataka. Further, the consumption estimates are expected to be around 25Mn Tons. Thus the low closing stock levels of sugar (which declined to around 3.88Mn tons in SS2017 from 7.7Mn Tons in SS2016) in the domestic market are likely to support the sugar prices in near term. The Indian sugar industry is expected to remain stable in short to medium term with increase in FRP by 11% & rise in import duty by GoI to 100%. Further the UP government hiked the State advised price (SAP) of sugarcane by Rs 10/quintal over previous SS from Rs 305/quintal to Rs 315/quintal for SS2017-18. The demand- supply gap has resulted in improved profits for the sugar mills. Continuation of government policies to regulate the sugar sector & actual global as well as domestic production-consumption patterns would be crucial for Indian Sugar Industry.

Key Rating Weaknesses

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, ie, 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.

Exchange rate fluctuation & Regulated nature of sugar business: DSIL is exposed to foreign exchange fluctuations as the rayon division exports to Europe; DSIL is developing alternate markets for its exports by spreading to Asia & Latin America, thereby placing less reliance on European markets for its rayon division.
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. Further recently the government raised the import duty to 100% on sugar and earlier resorted to hike in FRP prices by 11% to Rs 255 per quintals which were the short term measures to keep sugar prices under control.

Analytical approach:
Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments

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 45,000 KL per annum and a co-generation power plant with the capacity of 50 MW as on Sep 30, 2017. DSIL has a total installed capacity of organic/ fine chemicals of 17,318 tonnes per annum.

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 16,200 tonnes per year which includes yarn production capacity, grey fabric and dipped fabric capacity.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1209.32	1502.75
PBILDT	91.87	199.77
PAT	33.24	120.52
Overall gearing (times)	1.88	1.25
Interest coverage (times)	2.61	6.51

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

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

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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
Proposed Commercial Paper-Commercial Paper (Carved out)	-	-	7 to 364 days	75.00	CARE A1+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	89.35	CARE A+; Stable	1)CARE A+; Stable (29-Sep-17)	1)CARE A-; Stable (08-Mar-17) 2)CARE BBB+ (07-Oct-16)	1)CARE BBB (16-Oct-15)	1)CARE BBB (12-Sep-14)
2.	Fund-based - LT-Cash Credit	LT	4’39.31	CARE A+; Stable	1)CARE A+; Stable (29-Sep-17)	1)CARE A-; Stable (08-Mar-17) 2)CARE BBB+ (07-Oct-16)	1)CARE BBB (16-Oct-15)	1)CARE BBB (12-Sep-14)
3.	Non-fund-based-Short Term	ST	93.55	CARE A1+	1)CARE A1+ (29-Sep-17)	1)CARE A2 (08-Mar-17) 2)CARE A3 (07-Oct-16)	1)CARE A3 (16-Oct-15)	1)CARE A3 (12-Sep-14)
4.	Fixed Deposit	LT	15.00	CARE A+ (FD); Stable	1)CARE A+ (FD); Stable (29-Sep-17)	1)CARE A- (FD); Stable (08-Mar-17) 2)CARE BBB+ (FD) (07-Oct-16)	1)CARE BBB (FD) (16-Oct-15)	-
5.	Commercial Paper-Commercial Paper (Carved out)	ST	75.00	CARE A1+	-	-	-	-

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