DCM Shriram Industries Ltd

August 20, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	586.08 (enhanced from 528.66)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Short term Bank Facilities	92.85 (reduced from 93.55)	**CARE A1+ (A One Plus)**	Reaffirmed
Total	**678.93 (Rs. Six hundred seventy eight crore and ninety three lakhs only)**		
Commercial Paper*	75.00	**CARE A1+ (A One Plus)**	Reaffirmed
Medium-term Instruments – Fixed Deposit	15.00	**CARE A+ (FD); Stable [Single A Plus (Fixed Deposit); Outlook: Stable]**	Reaffirmed

**Carved out of sanctioned fund based working capital limits*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings to the bank facilities and instruments of DCM Shriram Industries Ltd (DSIL) takes into account DSIL's diversified (non-sugar) 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 moderate financial risk profile driven by improvement in capital structure. However, these rating strengths are partially offset by the current weak scenario of the sugar industry due to record sugar production in Sugar Season 2018 (SS 2018) resulting in sharp decline in domestic sugar prices, 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

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. During FY18, the sugar segment (including Power & alcohol) contributed 63.25% followed by rayon division 21.51%, chemical division 15.24%. 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 a large extent.

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.

Moderate financial risk profile: During FY18, the total operating income of DSIL registered 16% growth y-o-y to Rs 1746.43 crore due to higher sales of sugar & improved performance in Rayon and chemical segment. However, the PBILDT margin decreased from 13.78% in FY17 to 6.55% in FY18 primarily due to lower sugar prices. PBILDT interest coverage declined to 4.06x in FY18 as against 5.46x in FY17 mainly due to decline in PBILDT. However, the finance cost reduced from Rs. 38.06 crore in FY17 to Rs 28.14 crore in FY18 on account of lower utilization of the working capital limits. Overall gearing improved to 1.10x as on 31st Mar 2018 as against 1.24x as on 31st Mar 2017 mainly due to scheduled repayments & enhanced net worth due to accretion of profits to reserves and surplus.

In Q1FY19, income from operations amounted to Rs 471.12 crore as against Rs 475.80 crore in Q1FY18 mainly due to decline in sales of sugar segment which was partially offset by improved performance in chemical and rayon segment.

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

However, PBILDT margin decreased to 9.27% in Q1FY19 compared to 11.84% in Q1FY18 mainly due to lower sugar realization.

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.

Weak sugar industry scenario: The outlook on the domestic demand - supply scenario and the prices remains weak in the medium term given the oversupply situation in the country. The sugar production in the ongoing season (SS18) had been at record 32.3 MT which is about 59% more than the production achieved last year. Due to an unexpected surplus sugar availability of around 36.3 MT of sugar including the opening stock, domestic ex-mill prices hadcrashed which had started exerting pressure on the margins of the domestic mill owners. Though the government has taken a number of steps to control the fall in sugar prices such as setting a minimum selling price of sugar to Rs 29 per kg, scrapping export duty of 20%, allotting a minimum export quota of 2MT, raising import duty to 100% on sugar, subsidy of Rs 5.5/quintal etc. to support the sugar prices, the continued focus of the government on the sector and any incremental steps which leads to improvement in the domestic scenario of sugar prices shall remain critical for the industry.

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 70 MW as on June 30, 2018. DSIL has a total installed capacity of organic/ fine chemicals of 18,118 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 16,700 tonnes per year which includes yarn production capacity, grey fabric and dipped fabric capacity.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1507.46	1746.43
PBILDT	207.72	114.33
PAT	56.45	119.27
Overall gearing (times)	1.21	1.10
Interest coverage (times)	5.46	4.06

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
Fund-based - LT-Term Loan	-	-	Mar 2023	141.07	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	445.01	CARE A+; Stable
Non-fund-based-Short Term	-	-	-	92.85	CARE A1+
Fixed Deposit	-	9.5%	December 2020	15.00	CARE A+ (FD); Stable
Commercial Paper-(Carved out)	-	-	-	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	141.07	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)
2.	Fund-based - LT-Cash Credit	LT	445.01	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)
3.	Non-fund-based-Short Term	ST	92.85	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)
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+	-	1)CARE A1+ (15-Feb-18)	-	-

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CIN - L67190MH1993PLC071691