DCM Shriram Industries Ltd

September 18, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	712.90 (enhanced from 586.08)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Short term Bank Facilities	92.85	**CARE A1+ (A One Plus)**	Reaffirmed
Total	**805.75 (Rs. Eight hundred five crore and seventy five lakhs only)**		
Medium-term Instruments – Fixed Deposit	15.00	**CARE A+ (FD); Stable [Single A Plus (Fixed Deposit); Outlook: Stable]**	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings for 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. Further, 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 driven by improvement in its capital structure. However, these rating strengths are 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.

Going ahead, the ability of the company to improve its revenue profile & enhance its overall profitability and improve its capital structure amidst highly regulated industry environment shall be the key rating sensitivities. Further, the ability of DSIL to complete its planned capex without any time & cost over run shall also be critical for DSIL's credit profile going ahead.

Detailed description of the key rating drivers

Key Rating Strengths

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 Alok B Shriram (SMD & CEO). He is assisted by his brother Mr Madhav B Shriram (MD), in looking after the overall business of the company. During the year, Mr Tilak dhar (previous SMD) passed away and subsequently the Board of DCM Shriram Industries elevated Mr. Alok B Shriram (JMD & CEO) as Senior Managing Director & CEO and Madhav B Shriram (DMD) as Managing Director. The directors have an experience of over two 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 segments. During FY19, the sugar segment (including Power & alcohol) contributed 56.13% followed by rayon division 23.71% and chemical division 20.16%. 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.

CARE further takes into account that against the prevailing tariffs of ~Rs 5.00 to ~Rs 6.75 per unit for the purchase of cogenerated power supplied by sugar mills to UP Power Corporation Limited (UPPCL), the UP Electricity Regulatory Commission (UPERC) has proposed paring the rate by around Rs 2.25 per unit, or by around 35%, for the next five years. DSIL's current rate is Rs 5.03 per unit & is expected to be reduced to ~ Rs 3 per unit. Power is however only contributing ~2% to its total operating income & as such the impact on its overall revenue profile will not be very significant.

Comfortable financial & liquidity profile: During FY19, the total operating income of DSIL declined marginally to Rs. 1703.59 crores from Rs 1746.43 crore in FY18 due to lower sales of sugar in FY19 mainly on account of allocation of monthly sales quota by the government to all the manufacturers in the sugar industry as a measure to control its prices which was partially offset by improved performance in Rayon and chemical segment. DSIL, in FY19, registered a growth in operating income in Rayon & Chemical segments by 7.72% & 29.77% respectively. Further, the PBILDT margin improved from 6.55% in FY18 to 7.72% in FY19 primarily due to improved realization from rayon and chemical segment. Overall gearing also improved to 1.05x as on 31st Mar 2019 as against 1.10x as on 31st Mar 2018 mainly due to scheduled

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

repayments & enhanced net worth due to accretion of profits to reserves and surplus. Further ~55% of the long term debt in DSIL as on March 31, 2019 is low cost debt with average ROI being 5% or less on account of soft loans which have an interest subvention scheme.
In Q1FY20, income from operations amounted to Rs. 402.32 crores as against Rs 471.12 crores in Q1FY19 mainly due to decline in sales of sugar and rayon segment. However, PBILDT margin improved to 10.30% in Q1FY20 from 9.27% in Q1FY19 mainly due to better sugar realization.
To meet the market requirement in coming period, the Rayon unit of DSIL is implementing a project to increase the rayon production capacity from 9855 MT to 11200 MT and also install a new dipping unit. The total capex is for Rs 59.40 crore to be funded in debt & equity ratio of 70:30. Further company also plans to install Concentration & Incineration plant (C&I Plant) in FY20 with a total capex outlay of around Rs 35 crore. The ability of DSIL to complete the planned capex without any time & cost over runs & derive the expected benefits will be critical for its credit profile going ahead.

***Adequate Liquidity*:** The liquidity profile of the company remains comfortable with stable cash accruals from diversified revenue streams and current ratio of 1.20x as on March 31, 2019 against 1.16x on March 31, 2018. The company has high inventory days at 134 days in FY19 (PY:118 days) as manufacturing of sugar takes place during November to April, while sales takes place uniformly during the complete year and also due to imposition of sales quota on sugar companies has led to high inventory days. The buyers are extended a credit period of 40-45 days while the creditor days are relatively high at 58 days in FY19 (PY: 50 days). Average utilization at maximum level stood comfortable at 67.79% for the 12 month period ended June 30, 2019. The company also have liquid mutual fund investments of Rs. 17 crores as on March 31, 2019 which gives comfort to its liquidity. The company has cash and bank balance of Rs. 12.92 crore (includes margin money and earmarked deposits of Rs 6.95 crore) as on March 31, 2019 and cane arrears as on August 16, 2019 stood at Nil.

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, i.e., 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 risk: DSIL is exposed to foreign exchange risk as export sale from the chemical & rayon segment together contribute approximately 28% of the total gross sales in FY19 (23% in FY18). DCM primarily sells in Europe, China, USA, and Singapore, etc. By expanding its geographical reach in rayon segment, DSIL has been able to better leverage the natural hedge it has in US$ by bringing down the Euro exposure in exports in earlier years, thereby insulating it to a large extent from fluctuations in Euro/US$ parity. It imports wood pulp from USA which is a raw material in rayon segment. DSIL has a natural hedge & apart from that company enters into forwards to hedge its forex exposure as & when required. DSIL had Rs 187.48 crore (receivables) foreign currency exposure as on March 31, 2019 out of which Rs 115.69 was covered by natural hedge & balance was unhedged exposure. The total foreign exchange gain in FY19 on account of Forex was Rs 8.41 crore (Rs 8.4 crore gain in FY18).

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.

Industry Outlook
For the entire sugar year 2018-19, Indian Sugar Mills Association (ISMA) estimates sugar output to have increased from 32.5 million tonnes in SS18 (refers to period from October to September) to around 33.0 mn tonnes in SS19. Considering these estimates India will have a closing stock of 14.7 million tonnes of sugar at the beginning of the next sugar season which is sufficient to fulfil the requirement of about 5-6 months of country's sugar consumption. This is much more than the normative requirement of 2 months stock that India keeps to avoid any disturbance in sugar supply. However, due to various government regulations, such as increase in minimum sale price of sugar at Rs.31 per kg in Feb 2019 from Rs. 29/kg, the prices are expected to have a support. Other government initiatives such as increase in the ethanol prices to support sugar mills and providing financial assistance to mills to help them clear payment to farmers are also expected to augur well for the industry. Sugar production, though expected to be lower in SS2019-20, is expected to be more than domestic requirement (ISMA). Government policy in respect of SAP, MSP, buffer stock, subsidies, etc., shall be critical.

The products from rayon segment are predominantly used as reinforcement material in high performance tyres and due to the slowdown in the Auto sector globally, margins and revenue have declined in Q1FY20. The demands for cars & trucks have weakened globally and it is expected that auto sales will remain subdued in the calendar year 2019.

Analytical approach:
Standalone

Applicable Criteria
[CARE's Criteria on assigning Outlook and Credit watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for Short-term Instruments]
[Rating Methodology – Manufacturing Companies]
[CARE's methodology for financial ratios (Non Financial sector)]

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, co-generation power plant with the capacity of 70 MW and organic/ fine chemicals plant with total installed capacity of 18,118 tonnes per annum as on March 31, 2019. . 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 17055 tonnes per year which includes yarn production capacity, grey fabric and dipped fabric capacity. The Rayon Unit of DSIL is implementing a project to increase the Rayon production capacity from 9855 MT to 11200 MT and also install a new dipping unit.Recently, 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. This segment however is at a very nascent stage.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1746.43	1703.59
PBILDT	114.33	131.59
PAT	56.45	72.77
Overall gearing (times)	1.10	1.05
Interest coverage (times)	4.06	5.48

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

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	-	-	March 2027	267.89	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	445.01	CARE A+; Stable
Non-fund-based-Short Term	-	-	-	92.85	CARE A1+
Fixed Deposit	-	-	-	15.00	CARE A+ (FD); Stable
Commercial Paper-Commercial Paper (Carved out)	-	-	-	0.00	Withdrawn

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	267.89	CARE A+; Stable	-	1)CARE A+; Stable (20-Aug-18)	1)CARE A+; Stable (29-Sep-17)	1)CARE A-; Stable (08-Mar-17) 2)CARE BBB+ (07-Oct-16)
2.	Fund-based - LT-Cash Credit	LT	445.01	CARE A+; Stable	-	1)CARE A+; Stable (20-Aug-18)	1)CARE A+; Stable (29-Sep-17)	1)CARE A-; Stable (08-Mar-17) 2)CARE BBB+ (07-Oct-16)
3.	Non-fund-based-Short Term	ST	92.85	CARE A1+	-	1)CARE A1+ (20-Aug-18)	1)CARE A1+ (29-Sep-17)	1)CARE A2 (08-Mar-17) 2)CARE A3 (07-Oct-16)
4.	Fixed Deposit	LT	15.00	CARE A+ (FD); Stable	-	1)CARE A+ (FD); Stable (20-Aug-18)	1)CARE A+ (FD); Stable (29-Sep-17)	1)CARE A- (FD); Stable (08-Mar-17) 2)CARE BBB+ (FD) (07-Oct-16)
5.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	1)Withdrawn (13-Sep-19)	1)CARE A1+ (20-Aug-18)	1)CARE A1+ (15-Feb-18)	-

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: Ms Ravleen Sethi
Tel: 011- 45333278
Email: ravleen.sethi@careratings.com

Business Development Contact
Name: Swati Agrawal
Contact no. : +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**