DCM Shriram Industries Ltd

September 28, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	798.20 (enhanced from 712.90)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Short term Bank Facilities	104.05 (enhanced from 92.85)	**CARE A1+ (A One Plus)**	Reaffirmed
Total	**902.25 (Nine hundred two crore and twenty 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. 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.

DSIL has sought moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. In the anticipation of the said approval following the regulatory package by RBI some of the scheduled repayments and interest payments were deferred by the company. The moratorium has been approved by the bankers of DSIL. CARE has not recognized this instance as a default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Rating sensitivities

Positive Factors:

- Ability of the company to increase its scale of operations by more than 25% from its current levels on a sustained basis along with improvement in its PBILDT margins to 12% on sustained basis.
- Ability to improve the capital structure marked by overall gearing of less than 0.50x on a sustained basis.

Negative Factors:

- Decline in profitability margins as marked by PBILDT margin below ~8% on a sustained basis.
- Total debt/EBITDA over 4x on a sustained basis.
- Any further increase in debt (other than envisaged) leading to deterioration in the capital structure with overall gearing increasing from the current levels in any of the years 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 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 chemicals (Capacity of 19,428 Tonnes p.a.) and rayon segments (Capacity of 17,055 Tonnes p.a.). DSIL's sugar division is also fully integrated with forward integration into cogeneration (Capacity of 94 MW p.a.) and distillery operations (Capacity of 52,500 K.L p.a) that de-risk the core sugar

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

business of the company to a large extent. During FY20, the sugar segment (including Power & alcohol) contributed 62.65% to TOI, followed by 18.33% from rayon division and 19.02% from chemical division. During FY20 (refers to period from April 01 to March 31), company has completed capex in its chemical segment which has led to increase in capacity to 19428 TPA in FY20 from 18118 TPA in FY19. Also in alcohol segment, company has completed installation of Concentration & Incineration plant (C&I Plant) which has led to increased capacity to 52,500 K.L per year in FY20 from 45000 K.L. per year in FY19. Currently, company has on-going capex to increase its capacities in Chemical, Alcohol and Rayon division. The total capex is for an estimated cost of ~Rs110 crore which will be financed partly through debt & balance by internal accruals. The capex is spanning over two year FY21 and FY22 and the financial closure is already achieved.

Comfortable financial & liquidity profile:
During FY20, DSIL achieved total operating income of Rs.1816.31 crore (as against Rs. 1703.59 crore in FY19) registering a growth of around 6.62% over the preceding year. The increase in total income from operations is primarily due to increased sales in the sugar segment and alcohol segment which grew by 13.86% & 40.08% respectively from previous year. PBILDT margin also improved from 7.72% in FY19 to 9.28% in FY20 mainly due to improved realization from Sugar and Chemical segment during the year. In the sugar segment, the revenue has increased from Rs. 685 crores in FY19 to Rs 780 crores in FY20. During FY20, company has sold 1.67 lac MT of sugar @ 33.14 per kg in FY20 and exported 0.54 lac MT of sugar @ 20.78 per kg as against 2.10 lac Mt @30.80 per kg of sugar sales and Nil exports in FY19. Revenue from chemical segment has remained stable at Rs. 344 crores in FY20 (PY: 343 crores) however PBIDT margin has grown from 8.46% in FY19 to 11.13% in FY20 due to continued pressure on Chinese competitors amidst environment regulations in china and consequently prices of its products continued to remain firm. Company has also increased its manufacturing capacity from 18118 TPA in FY19 to 19428 TPA in FY20 by expansion and debottlenecking. In the Rayon segment, income decreased in FY20 due to overall slowdown in the automotive sector. The alcohol business performed well with increase in revenue to Rs.324 crores in FY20 from Rs. 232 crores in FY19 with average realisation improving to Rs.46.1 per litre in FY20 from Rs.39.8 per litre in FY19. The Alcohol division has also started producing alcohol based hand sanitizers in FY21. Revenue also increased due to higher bottling volumes which generated revenue of Rs 24.67 crore in FY20 as against Rs 17.59 crore in FY19. During 2019-20, around 10 % to 12 % of sugar cane crushed was towards B heavy molasses. Going forward, company plans to use higher percentage of B heavy molasses. In the power segment, revenue has declined in FY20 on account of revision in the tariff rate by UPPCL.
Total debt as on 31st Mar 2020 increased to 613.42 crore (PY: Rs 465.89 crore) majorly on account increase in long term borrowings raised during the year. In FY20, company has raised long term loan of Rs. 146.18 crores (out of which Rs. 84.46 crores is soft loan and rest is for capex incurred during the year). On account of increase in total debt, overall gearing of the company increased to 1.20x as on March 31, 2020 from 1.05x as on March 31, 2019.
During Q1FY21, TOI of the company stood at Rs. 404 crore. (Rs. 402 crores in Q1FY20). However, PBILDT has declined by 36% to Rs. 26.42 crores in Q1FY21 from Rs. 41.43 crores in Q1FY20. The decline in profitability is majorly due to losses in rayon segment and lower realization in sugar segment. Average realization in Q1FY21 stood at Rs. 32.29 per kg as against Rs. 33.06 per kg in Q1FY20. Sugar realization has come down in Q1FY21 due to lower sugar demand on account of lower consumption due to the lockdown imposed on account of outbreak of Covid-19. The prices have however stabilized post that & are currently at Rs 33-34 per Kg.
In rayon segment, total production and sales declined in Q1FY21 on account of lockdown declared by the Central government. Textile operations were halted from 17th April 2020 to 10th May 2020 and production started from 11th May 2020. Unit mainly supplies to international tyre manufacturers and demand was impacted due to lower off-take in automobile sector on account of the slowdown in the industry. Consequently, volumes in the first quarter are lower as compared to last Q1FY20. The demand is expected to improve as situation has started to normalize and clients' have also started operations. The revenue from the rayon segment is however expected to moderate in FY21 vis-a-vis FY20given the slowdown in the end user automotive Industry.

***Adequate Liquidity*:**
The liquidity profile of the company remains adequate with stable cash accruals from diversified revenue streams and current ratio of 1.29x as on March 31, 2020 against 1.20x on March 31, 2019. The company has high inventory 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 which led to high inventory days. The buyers are extended a credit period of 40-45 days while the creditors days are relatively high. Average utilization at maximum level stood comfortable at ~72% and has unutilized working capital facility available to it as on June 30, 2020. There is surplus fund of Rs. 11.69 crores as on March 31, 2020 deployed in liquid mutual funds available. Cash & bank balance as on July 31, 2020 stood at Rs. 20 crores and Mutual fund balance as on Sep 09, 2020 stood at ~Rs 41 Crore and cane arrears as on Sep 09, 2020 stood at Rs 74 crore. Sugar stock as on September 09, 2020 stood at Rs. 389.35 crores (1.17 lac QTL @ Rs. 33.00 per kg). Mutual fund balance as on Sep 09, 2020 stood at ~Rs 41 Crore. As on September 09, 2020 Company has outstanding dues of Export subsidy of Rs 75 crores & Rs 16 crore from power discoms. DSIL has sought moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI & after that company has Rs 45.36 crore of

repayments due in FY21 against which company is expecting a cash accruals of Rs 96.45 crore. DSIL also has a capex ongoing for which a part of the internal accrual will be utilized in FY21 and FY22.

Industry Outlook

For SS 2020-21, India's sugar output is expected to increase by 17.7% y-o-y to 32 million tonnes as per the preliminary estimates released by ISMA. This is likely to aggravate the already surplus sugar supply situation in India. The estimate does not include diversion of cane juice and B-molasses towards ethanol which is expected to result in 1.5 million tonnes of less sugar in sugar year 2020-21. The average domestic sugar prices remained almost stable and were in the range of Rs.33 per kg – Rs.34 per kg during the period October 2019-March 2020 backed by lower sugar output and higher exports for the SS 2019-20. In addition to this, monthly sales quota and encouragement to increase diversion of sugarcane towards ethanol to reduce sugar inventory have also aided the stability in prices.

In July 2020 sugar prices improved by 4.7% m-o-m to Rs.33.9 per kg. The prices had also increased 1.6% sequentially in June 2020 as per Wholesale Price Index (WPI). Some recovery in demand from bulk consumers such as restaurants which were allowed to operate (though with various restrictions) is believed to have resulted in the improvement in prices. Sugar prices in June 2020 (at Rs.32.3 per kg) however were 4% lower compared to the average sugar prices of Rs.33.7 per kg in the first 6 months of SS 2019-20 (prior to lockdown). Post lockdown, sugar prices had declined by 0.3% in April 2020 and by another 0.9% in May 2020 on sequential basis as per WPI. Subdued demand from bulk consumers like restaurants, eateries, food services etc. due to imposition of lockdown on account of Covid-19 is believed to have impacted sugar prices during these two months.

The Cabinet Committee on Economic Affairs (CCEA) announced FRP for sugarcane at Rs.285 per quintal for the sugar season (SS) 2020-21 for a basic recovery rate of 10%. This is 3.6% higher than the FRP of Rs.275 per quintal during 2019-20 when it was kept unchanged. The higher cost of sugar production is likely to affect the sugar mills given the current scenario of sugar industry where surplus sugar supply is already restricting any major growth in sugar prices. Government is also mulling an increase of Rs 2/kg in the minimum selling price of sugar (MSP) from Rs 31/kg to Rs 33/kg from October 1, 2020 which will improve the profitability of the sugar companies in H2FY21.

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. Average utilization at maximum level stood comfortable at ~72% and has unutilized working capital facility available to it as on June 30, 2020

Exchange rate fluctuation risk: DSIL is exposed to foreign exchange risk as export sale from the chemical & rayon segment together contribute approximately 37% of the total gross sales in FY20 (43% in FY19 & 36% 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 (as explained above), 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 76.57 crore (receivables) foreign currency exposure as on March 31, 2020 (Rs 187.48 crore as on March 31, 2019) out of which Rs 58.3 crore (PY: Rs 115.69) was covered by natural hedge & balance was unhedged exposure. The total foreign exchange gain in FY20 on account of Fx was Rs 10.05 crore (Rs 8.4 crore gain in FY19).

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.

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

Rating Methodology-Sugar Sector
CARE's methodology for financial ratios (Non Financial sector)
Liquidity Analysis of Non-financial sector entities

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 52,500 KL per annum, co-generation power plant with the capacity of 94 MW and organic/ fine chemicals plant with total installed capacity of 19,428 tonnes per annum as on March 31, 2020. 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. 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)	FY19 (A)	FY20 (A)
Total operating income	1703.59	1816.31
PBILDT	131.59	168.46
PAT	73.58	95.96
Overall gearing (times)	1.05	1.20
Interest coverage (times)	5.48	3.78

A: Audited
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

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	-	-	Nov 2025	291.19	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	507.01	CARE A+; Stable
Non-fund-based-Short Term	-	-	-	104.05	CARE A1+
Fixed Deposit	-	-	-	15.00	CARE A+ (FD); Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	291.19	CARE A+; Stable	-	1)CARE A+; Stable (18-Sep-19)	1)CARE A+; Stable (20-Aug-18)	1)CARE A+; Stable (29-Sep-17)
2.	Fund-based - LT-Cash Credit	LT	507.01	CARE A+; Stable	-	1)CARE A+; Stable (18-Sep-19)	1)CARE A+; Stable (20-Aug-18)	1)CARE A+; Stable (29-Sep-17)
3.	Non-fund-based-Short Term	ST	104.05	CARE A1+	-	1)CARE A1+ (18-Sep-19)	1)CARE A1+ (20-Aug-18)	1)CARE A1+ (29-Sep-17)
4.	Fixed Deposit	LT	15.00	CARE A+ (FD); Stable	-	1)CARE A+ (FD); Stable (18-Sep-19)	1)CARE A+ (FD); Stable (20-Aug-18)	1)CARE A+ (FD); Stable (29-Sep-17)
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)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
CC	• Rate of interest is 1 year MCLR + 0.70%
Term Loan	• Penal interest of 2% p.a. to be charged in case account is taken over by other bank/financial institution
B. Non-financial covenants	
CC	• Company to submit month wise position/estimates at the beginning of every month for allocation of drawing power.
Term Loan	• Bank's name plate, evidencing hypothecation of security/asset to be prominently, displayed where the securities charged to the bank are kept.

Annexure 4: Complexity level of various instruments rated for this company

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

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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