CRISIL
Ratings

Rating Rationale

August 25, 2023 | Mumbai

DCM Shriram Limited

Rating reaffirmed at 'CRISIL A1+'

Rating Action

Rs.600 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A1+' rating on the commercial paper of DCM Shriram Limited (DCM).

The operating revenue of DCM improved in fiscal 2023 by 20% y-o-y aided by healthy performance across chemicals, sugar, fertilizers, and fenesta segment. However, the operating margin declined to 13.9% in fiscal 2023 from 18.6% in fiscal 2022 owing to decline in prices in the chemicals and vinyl segment. It was supported by improvement in profitability in other segments viz. Shriram Farm Solutions and Fenesta. The impact of decline in prices continued in Q1-FY24 as DCM booked revenue of Rs. 2780 crore with profitability declining to 5.97%. CRISIL Ratings expects revenue growth of 8-10% while profitability to remain muted in fiscal 2024 as prices are expected to remain subdued affected by slowdown in demand in the chemicals and vinyl segment. The revenue and profitability of DCM will continue to be supported by the diversity in the business profile.

The company is undergoing a capital expenditure (capex) of around Rs 3500 crores currently, out of which majority of the capex has been completed by March 2023 and the balance is expected to be completed by Q3 fiscal 2024. The remaining capex is expected to be funded by debt of around Rs 500-600 crore. Financial risk profile should remain strong, despite the ongoing debt-funded capex, supported by expected steady cash accrual and healthy liquidity. Any significant delay in commissioning or higher-than-expected capex or delayed benefits expected from the ongoing capex will remain key monitorable.

The rating continues to reflect healthy and diversified business risk profile and strong financial risk profile of DCM, indicated by comfortable debt protection metrics, healthy capital structure and ample liquidity. These strengths are partially offset by risks related to volatility in the sugar, chlor-alkali and plastics segments and exposure to risks related to regulatory changes in the sugar and fertiliser industries.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of DCM and its associate and subsidiary companies considering the operational, managerial, and financial linkages between them.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Healthy and diversified business risk profile

Chlor-alkali (caustic soda and chlorine) manufacturing is a part of the chloro-vinyl segment (chlor-alkali and plastics) along with polyvinyl chloride resins. The company is the third-largest domestic manufacturer of caustic soda, with capacity of 1,869 tonne per day at plants in Kota, Rajasthan, and Bharuch, Gujarat. Sustained price realisation, lower power cost driven by better efficiencies of captive power plants and large-scale operations ensured healthy operating margin over the past decade. Given its increased capacity and ability to generate large economies of scale, the company is expected to maintain its market position and operating efficiency over the medium term.

DCM owns and operates four sugar mills in Uttar Pradesh, with capacity of 41,000 tonne of cane crushed per day. Further, its 560-kilo litre per day distillery capacity and 94.5 MW of exportable power, is expected to support segmental profitability and partially insulate the company from cyclicality in the sector. The government's efforts to maintain sugar inventory balance in the country, thereby supporting exports and increasing the percentage of ethanol blending with petrol, should ensure stable profitability over the medium term.

The business risk profile also benefits from the company's small-but-diversified presence across agricultural-related businesses (including Shriram Farm Solutions [SFS], fertiliser, bioseed, and Hariyali Kisan Bazaar), cement and Fenesta windows.

Strong financial risk profile

The financial risk profile is supported by comfortable debt protection metrics and healthy capital structure. Sustained profitability ensured comfortable interest coverage and net cash accrual to total debt ratios of over 30.0 time and 0.7 time, respectively, for fiscal 2023. Prudent funding of capacity expansion kept gearing below 1 time over the eight fiscals ended March 31, 2023. Capital structure should remain comfortable over the medium term despite debt funded capex. Any large, debt-funded capex or acquisition that weakens the financial risk profile will be monitorable.

Weaknesses:

Volatility in the sugar, chlor-alkali, and plastics businesses

Profitability in the chlor-alkali and plastics businesses remains susceptible to international prices, exchange rate fluctuations, import duty levels and crude oil prices.

In the chemical segment, prices of caustic soda have corrected significantly from Q3 fiscal 2023 onwards impacted by global slowdown affecting end user industries and significant capacity additions in the industry. In the Vinyl segment, profitability was impacted due to steep decline in prices of PVC resins in fiscal 2023 and dumping of resins by foreign players in the Indian market due to slowdown in global demand. The prices are expected to remain subdued in fiscal 2024 impacting the overall profitability of the company. However, profitability is expected to improve from Q3 fiscal 2024 onwards with improvement in cost structures. The recovery in prices would remain a key monitorable for the re stabilisation of realisations at DCM.

Sugar prices are largely market driven and are dependent on production for the sugar season and inventory levels prevailing in the country. Hence, higher production that adds to the sugar inventory levels may lead to steep fall in prices and impact profitability severely given that the cost of production is relatively sticky in nature. This downfall in sugar prices is cushioned by the measure of Central Government through fixation of minimum support price (MSP) of sugar, increased ethanol prices and continued focus on increasing sugar diversion for ethanol production from the distillery operations.

Exposure to regulatory risks

The sugar and fertiliser businesses are highly regulated. In sugar, the Government of India is empowered to fix the price paid to cane growers annually (Fair and Remunerative Price, or F&RP; earlier, it was called the statutory MSP). In some states, such as Uttar Pradesh, sugarcane pricing is controlled through the State Advised Price (SAP). A large gap between SAP and F&RP can expose Uttar Pradesh-based mills to the threat of imports from other states, though at present, this difference is small. Furthermore, a high SAP drives up the cost of production, which these mills have been able to partially offset through the use of better cane variety, thereby improving their cane recovery rate. The government also announces an MSP for sugar every year, which supports the realisation of sugar. Furthermore, the government's focus on increasing ethanol blending with petrol to 20% from the current 10% led to high demand for ethanol, leading to stable performance of the sugar business.
In fertiliser, both the input and output prices are controlled by the government.

Liquidity: Strong

Liquidity should remain healthy despite the ongoing capex. A prudent liquidity policy helps offset fluctuation in cash flow. CRISIL Ratings expects cash accrual to be Rs 700-1,200 crore per annum, against yearly debt obligation of Rs 170-190 crore over the medium term. Utilisation of bank limits worth Rs 1,100 crore remained low for the 12 months through April 2023. Cash and equivalents were about Rs 651 crore as on June 30, 2023.

Environment, social and governance (ESG) profile

The ESG profile of DCM supports its strong credit risk profile.

The chemical manufacturers can have a significant impact on the environment owing to high water consumption, waste generation and greenhouse gas emissions. The sector's social impact is characterised by health hazards, leading to higher focus on employee safety and wellbeing and the impact on local community, given the nature of its operations. DCM has continuously focused on mitigating its environmental and social risks.

Key ESG highlights

- The company monitors its water, energy, and waste targets. Company has been able to reduce specific water intensity by 25%, in specific Energy intensity by 29% and in Specific GHG Emissions intensity by 23% from 2022 to 2023.
- The Company stands committed to increase the mix of green energy in its overall consumption of different energy sources. ~42% of the total direct power consumption is green power. . Company is 12 times water positive.
- The attrition rate was at 15.18% at par with peers and the company has also been able to reduce its % share of employees in union to 16.77% from 70%. To identify potential risks, DCM has a human rights due diligence process which is conducted annually through DCM Shriram's internal audit process for monitoring company-wide compliance.
- The governance structure is characterised by 50% of the board comprising independent directors, presence of an investor grievance redressal mechanism and extensive disclosures.

There is growing importance of ESG among investors and lenders. The commitment of DCM to the ESG principle will play a key role in enhancing stakeholder confidence, given shareholding by foreign portfolio investors and access to both domestic and foreign capital markets.

Rating Sensitivity factors
Downward factors
- Lower-than-expected operating performance, leading to significant decline in the operating margin on sustained basis
- Significant weakening of the financial risk profile on account of any large, debt-funded capex or any acquisition leading to net debt-to-earnings before interest, taxes, depreciation, and amortisation increasing above 2 times on sustained basis

About the Company
DCM is a diversified business group, with presence across the chloro-vinyl (chlor-alkali and plastics), sugar and agricultural inputs (farm solutions; urea and bioseed) businesses. The company is also engaged in Fenesta building system and cement. It operates its chlor-alkali, plastics, urea, and cement businesses from Kota and chlor-alkali operations from Bharuch, where it has captive power plants. The company has four sugar mills in central Uttar Pradesh, with a bioseed division in Hyderabad.

Key Financial Indicators

Particulars	Unit	2023	2022
Revenue	Rs crore	11,547	9,627
Profit after tax (PAT)	Rs crore	911	1,067
PAT margin	%	7.9	11.1
Adjusted debt/adjusted networth	Times	0.3	0.3
Interest coverage	Times	30	21

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
INE499A14CU3	Commercial Paper	11-Jul-23	7.20%	29-Sep-23	50	Simple	CRISIL A1+
NA	Commercial Paper	NA	NA	7-365 days	550	Simple	CRISIL A1+

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
DCM Shriram Credit and Investments Ltd	Full	Strong managerial, operational and financial linkages
Bioseed India Ltd	Full	Strong managerial, operational and financial linkages
DCM Shriram Infrastructure Ltd	Full	Strong managerial, operational and financial linkages
Fenesta India Ltd	Full	Strong managerial, operational and financial linkages
Hariyali Rural Ventures Ltd	Full	Strong managerial, operational and financial linkages
DCM Shriram Aqua Foods Ltd	Full	Strong managerial, operational and financial linkages
Shriram Bioseed Ventures Ltd	Full	Strong managerial, operational and financial linkages
Bioseed Holdings PTE Ltd	Full	Strong managerial, operational and financial linkages
Bioseed Research Philippines Inc	Full	Strong managerial, operational and financial linkages
Bioseed Research USA Inc	Full	Strong managerial, operational and financial linkages
Shriram Polytech Ltd (erstwhile Shriram Axiall Pvt Ltd)	Full	Strong managerial, operational and financial linkages
DCM Shriram ProChem Limited	Full	Strong managerial, operational and financial linkages
DCM Shriram Bio Enchem Limited	Full	Strong managerial, operational and financial linkages
DCM Shriram Ventures Limited	Full	Strong managerial, operational and financial linkages
Shriram Agsmart Limited	Full	Strong managerial, operational and financial linkages

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	600.0	CRISIL A1+		--	26-08-22	CRISIL A1+	24-09-21	CRISIL A1+	28-12-20	CRISIL A1+	CRISIL A1+

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Bank Loan Ratings
Rating Criteria for Chemical Industry
Rating Criteria for Fertiliser Industry
Rating Criteria for Sugar Industry
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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