ANDHRA CEMENTS LIMITED
Subsidiary of SAGAR CEMENTS LIMITED

Ref. ACL.SE:2024

13th August, 2024

The Manager Listing Department **National Stock Exchange of India Ltd** Exchange Plaza, C-1, G-Block Bandra-Kurla Complex, Bandra (E), Mumbai – 400051 **NSE Symbol: ACL**	The Manager Listing Department **BSE Limited** 25th Floor, New Trading Ring, P J Towers, Dalal Street, Fort Mumbai – 400 001 **BSE Scrip Code - 532141**

Dear Sirs,

Sub: Intimation under Regulation 30 of SEBI (LODR) Regulations, 2015- Reg

Pursuant to Regulation 30 read with Part A of Schedule III to SEBI (LODR) Regulation 2015, we wish to inform you that India Ratings & Research Private Limited, published our credit rating vide its publication dated 12th August, 2024 of which a copy is enclosed.

This is for your kind information and records.

Thanking you,

Yours truly,
For ANDHRA CEMENTS LTD

ANDHRA CEMENTS LIMITED

G. TIRUPATI RAO
COMPANY SECRETARY
M. No. F2818

Encl; As Above

Regd. Office & Works : Durga Cement Works, Durgapuram, Srinagar Post, Dachepalli Mandal, Palnadu District, A.P - 522414.
Phone: +91 8649-257441 / 42 | Fax: +91 8649-257428
Vizag Unit : Visakha Cement Works, Parlupalem Village, Durganagar Post, Visakhapatnam - 530029, A.P.
Corporate Office : Plot No.111, Road No.10, Jubilee Hills, Hyderabad - 500033, Telangana, India.
Phone : +91-40-23351571, 23351572 Fax : +91-40-23356573
Website: www.andhracements.com | E-mail: investorcell@andhracements.com | CIN: L26942AP1936PLC002379 | GSTIN: 37AABCA9263D2ZQ

IndiaRatings & Research
A Fitch Group Company

Login

India Ratings Affirms Andhra Cements at 'IND BBB+'; Outlook Negative

Aug 12, 2024 | Cement & Cement Products

India Ratings and Research (Ind-Ra) has taken the following rating actions on Andhra Cements Limited's (ACL) bank facilities:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	-	-	FY34	INR5,999.8 (reduced from INR6,000)	IND BBB+/Negative	Affirmed
Non-fund-based working capital limit	-	-	-	INR300	IND BBB+/Negative/IND A2	Affirmed
Non-fund-based working capital limit	-	-	-	INR300	IND BBB+/Negative/IND A2	Assigned
Fund-based working capital limit	-	-	-	INR350	IND BBB+/Negative	Affirmed

Analytical Approach

Ind-Ra has continued to take a top-down approach under the Parent Subsidiary Linkage Criteria to arrive at ACL's rating, given the strong linkages between ACL and its parent, Sagar Cements Limited (SCL; 'IND A'/Negative), which acquired ACL in March 2023.

Detailed Rationale of the Rating Action

The affirmation reflects SCL's comfortable market position and its geographically diversified operations with a presence in three regions. SCL's performance improved yoy in FY24 with growth in sale volumes and profitability, which coupled with a working capital release led to a rise in the cash flow from operations, leading to a reduction in the net leverage. However, given the fall in realisations with the increasing competitive intensity in the industry, the improvement in EBITDA/metric tonne (mt) was marginally below Ind-Ra's expectations resulting in a lower-than-expected deleveraging. Ind-Ra expects a continued improvement in performance in FY25 with the growth in volumes leading to an increase in the EBITDA and the consequent deleveraging.

The Negative Outlook reflects the likelihood of a weaker-than-expected EBITDA in FY25 given the continued pressure on prices, which could delay SCL's balance sheet deleveraging in FY25, notwithstanding some recovery in 2HFY25. Nonetheless, Ind-Ra takes comfort from the management's commitment to keep the net debt around current levels (FY24: INR12.5 billion) and structure its capex plans according to cash flow generation to ensure a reduction in the net leverage below 3.5x latest by FY26. Ind-Ra will continue to monitor the recovery in EBITDA as well as the capex and liquidity position.

ANDHRA CEMENTS LIMITED

List of Key Rating Drivers

Strengths

- Strong linkages with parent
- Benign input costs and volume ramp-up to aid gradual improvement in EBITDA 2HFY25 onwards
- Comfortable market position

- Geographically diversified with presence in three regions
- Adequate raw material linkages and captive power

Weaknesses

- Recovery in EBITDA key to deleveraging by FY26
- Net debt remains elevated, although unlikely to increase as capex structuring to be linked to cash flows
- Fluctuations in input costs; cyclical demand

Detailed Description of Key Rating Drivers

Strong Linkages with Parent: Ind-Ra believes the linkages between ACL and SCL are strong, owing to the operational synergies and ACL's strategic importance to SCL, as evident from the significant equity investment made by SCL and its commitment to extend further financial and operational support, as and when needed. The acquisition of ACL has helped SCL scale up its capacity to 10.5 million tonnes (mnt) capacity as of FY24, which will increase further to 11.25mnt by FY26 with the ongoing capex plans in ACL. This will further strengthen its market position in the southern markets of Andhra Pradesh and Telangana, making it strategically important to the latter. ACL accounts for around 21% of SCL's consolidated cement capacity. The operational synergies continue as ACL uses SCL's marketing network and sells cement under the common brand Sagar. Furthermore, there is centralised procurement of raw material. However, Ind-Ra believes that the strategic linkages would strengthen over time as ACL starts generating meaningful EBITDA and contributes to the consolidated cash flows.

ACL was acquired by SCL through the Insolvency and Bankruptcy Code route in March 2023 at an acquisition cost of INR9,220 million, including a start-up capex of INR850 million, and working capital and other costs of INR750 million. The acquisition was funded by term debt of INR6,000 million and the balance was funded by SCL. According to the resolution plan approved by the National Company Law Tribunal on 16 February 2023, SCL held a 95% stake in ACL, with the balance being held by its retail investors. The management, at SCL, has reduced their stake to 90% and plans to further dilute 15% before March 2026, in compliance with the listing regulations. ACL's board is represented by SCL's management and common independent directors. Ind-Ra also understands that the treasury operations are centralised.

Benign Input Costs and Volume Ramp-up to Aid Gradual Improvement in EBITDA 2HFY25 onwards: SCL's EBITDA/mt recovered to INR446 in FY24 (FY23: INR318; FY22: INR765), owing to the moderation in fuel prices from the elevated levels of FY23, along with a 14% yoy growth in sales volume to 5.51 mnt. The higher-than-industry growth in volumes was driven by a combination of ramp-up of the Jajpur and Jeerabad plants, and modest incremental volumes from the newly acquired unit at ACL. Although there has been a significant correction in fuel costs in the past 15-18 months, the recovery in SCL's EBITDA/mt was lower than expected due to a decline in industry-wide realisations. Further, SCL's operations were hit by a longer-than-regular maintenance shutdown undertaken for Mattampally line II clinker in 1QFY24, along with EBITDA losses in ACL during the year owing to the pending ramp-up amidst restart costs leading to losses in the entity.

Sale volumes grew 9% yoy to 1.28mnt in 1QFY25 which was affected by the national and state elections. Ind-Ra expects growth momentum to pick up in 2HFY25 on the back of demand from infrastructure projects as well as an improvement in demand from rural housing. However, Ind-Ra believes SCL's recovery in profitability in FY25 would be weaker than previously envisaged owing to the weak realisation amid the rising competitive intensity. Ind-Ra expects profitability to improve further in FY26 with volume ramp-up and efficiency capex at ACL, coupled with an increase in the share of green power leading to cost savings. ACL recorded sales volumes of around 0.52mt in FY24 and EBITDA losses of INR32 million. The gradual ramp up of output is likely to improve operational efficiencies and fixed cost absorption, resulting in better operational EBITDA at the consolidated level.

Comfortable Market Position: SCL's capacity has increased over 80% to 10.5mnt over FY21-FY24 through a mix of organic and inorganic routes. After completing the greenfield projects in Odisha and Madhya Pradesh in 2HFY22, SCL acquired ACL in March 2023. The increase in capacity has strengthened SCL's business profile by enhancing its market position and geographical presence. The management plans to increase the capacity to 11.25mt over the next couple of years contingent on the market conditions and its cash flows.

Geographically Diversified with Presence in Three Regions: From being primarily a southern India-based player till FY21, the company has a manufacturing presence in the central as well as the eastern region, which has a high growth potential. SCL's concentration towards the Southern region has been reducing (FY24: 70%, FY23: 75%). In FY24, SCL's cement sales originated from southern states of Andhra Pradesh (29%), Telangana (24%), Tamil Nadu (10%) and Karnataka (7%). The management expects Telangana (50% of sales mix), Andhra Pradesh (30%) and Tamil Nadu (20%) to be the key end-use markets for ACL. Ind-Ra believes the development of Andhra Pradesh's new capital Amravati, along with additional allocation towards capital investment for essential infrastructure such as water, power, railways and

ANDHRA CEMENTS LIMITED

roads in the budget of FY25 is likely to support cement demand in the Southern region.

Adequate Raw Material Linkages and Captive Power: SCL has limestone reserves of around 944mt at a consolidated level post the acquisition of ACL, which is sufficient to cater to the medium-to-long term limestone requirement of the existing plants. Additionally, SCL is building feeders for alternative fuel consumption across all the plants which would allow it to choose the type of fuel basis the availability and cost. Apart from this, SCL at a consolidated level has 73MW captive thermal power generation capacity, a 14.1MW waste heat recovery plant and around 9.86MW of solar and hydro power plant, sufficient to cover the power requirements of the entities, inclusive of the incremental capacities coming in. The company has also been able to reduce its lead distance by around 38% over FY17-FY24 (FY24: 4%).

Recovery in EBITDA Key to Deleveraging by FY26: After improving to 1.5x in FY21 (FY20: 2.7x), SCL's net leverage (net debt/EBITDA) rose to 4.9x in FY22 and further to 8.5x in FY23, mainly due to the investment of INR9.2 billion towards the acquisition of ACL (acquisition value, restart capex and working capital, other costs) and completion of the Jajpur and Jeerabad plants, exacerbated by a fall in EBITDA (FY23: INR1,532 million, FY22: INR2,758 million). While the net leverage improved to 5.2x in FY24, it was higher than Ind-Ra's expectations given the lower EBITDA. With realisations remaining subdued and the planned capex towards efficiency improvement and clinker capacity addition at ACL, the deleveraging process has been delayed by nine-to-12 months. The net leverage is likely to reduce to 3.5x only in FY26 compared to Ind-Ra's earlier expectations of FY25, on the back of a ramp-up in EBITDA. SCL's gross interest coverage (EBITDA/gross interest expense) recovered to 1.33x in FY24 (FY23: 0.77x, FY22: 2.98x) and is likely to improve further over the medium term as the EBITDA and utilisations levels improve for the recently expanded capacities, leading to an overall improvement in the financial profile of the entity.

Net Debt Remains Elevated Although Unlikely to Increase as Capex Structuring to be Linked to Cash Flows: The management has planned a second phase of capex at ACL, with a cost of INR4,700 million which entails reduction in power consumption and efficiency improvement coupled with an increase in the clinker capacity to 2.3mnt from 1.85mnt and the cement capacity to 3mnt from 2.25mnt.The said capex will be funded by a mix of term debt (INR3,000 million) and the balance would be funded by fresh equity proceeds generated by way of reduction in the promoter holding in ACL to 75% from the current 90%, in line with the listing requirements to be done before March 2026. Additionally, SCL has various green power capacity expansions planned across various plants totalling INR8.5 billion-9 billion over FY25-FY27 including maintenance capex. It has already embarked on the first phase of the ACL capex (cost: INR2.55 billion) consisting of efficiency and clinker capacity expansion while the second phase of cement grinding capacity increase is planned over FY25-FY26. The management has articulated that despite the planned capex, the net debt will remain at the current levels of around INR13 billion (FY24: INR12.5 billion). While the management expects to generate sufficient EBITDA and equity infusion over FY25-FY26, the timing of the capex would be contingent on these and a lower-than-expected cash flow would lead to the capex being structured accordingly. Ind-Ra would continue to monitor the progress of the capex in conjunction with the EBITDA and cash flow generation and assess its impact on the credit profile.

Fluctuations in Input Costs; Cyclical Demand: Given the competitive business, any sharp increase in the key input prices, including pet coke, coal and diesel, without a corresponding increase in cement prices, could affect the profitability margins. Also, SCL remains exposed to the inherent cyclicality in the cement industry, which is dependent on the country's infrastructure and housing demand.

Liquidity

Adequate: SCL had cash and cash equivalents of INR1,637 million at end-June 2024 at the consolidated level (end-March 2024: INR2,621 million) including INR400 million in the form of margin money towards non-fund-based limits). Cash flow from operations turned positive to INR1,833 million in FY24 (FY23: negative INR584 million, FY22: INR40 million) led by the combination of the improvement in EBITDA and the release of working capital. Ind-Ra expects the cash flow from operations to remain comfortable in FY25, although the working capital could witness some normalisation.

On a consolidated basis, the average use of the fund-based and non-fund-based limits was around 84% and 85%, respectively, over the 12 months ended June 2024, indicating moderate liquidity cushion. The company had a cushion of around INR790 million over the drawing power at end-March 2024 to meet any increase in the working capital requirements while the sanctioned limits were higher. At the standalone level, SCL's utilisation of the fund-based and non-fund-based limits was around 85% and 90%, respectively, over the same period. SCMPL has been sanctioned working capital limits of INR1,100 million (fund-based limits: INR350 million, with utilisation of 78%; non-fund-based limits: INR750 million, with utilisation of around 71%). Furthermore, it has received working capital limits in ACL (82% utilisation of fund-based limits of INR35 million and 80% utilisation of non-fund-based limits of INR60 million over the last 12 months ending June 2024).

ANDHRA CEMENTS LIMITED

Ind-Ra believes the free cash flow generation in the near term will remain contingent on the capex plans. With an estimated capex of around INR8.7 billion over FY25-FY27, the free cash flow is likely to remain negative, and turn positive in FY28 with an increase in the cash flow from operations and a reduction in capex spends. The company has repayment obligations of around INR1,560 million and INR1,420 million over FY25 and FY26 respectively, which would be met through the existing free cash coupled with EBITDA generation.

Rating Sensitivities

Positive: A sustained ramp-up in standalone volumes and operating profitability, leading to strengthening of linkages with the parent, or an upgrade of SCL's ratings would be positive for the ratings.

Negative: Any deterioration in SCL's consolidated credit profile and/or delay in ramp- up of volumes and profitability and/or any weakening of the linkages between SCL and ACL could lead to a negative rating action.

Any Other Information

Standalone Performance: The company was not operational during FY20-FY23 and it resumed operations only in 1QFY24. At the standalone level, ACL reported revenue of INR2,681 million in FY24, and EBITDA losses of INR32 million.

About the Company

ACL previously manufactured cement at Durga Cement Works, which is located at Dachepallu, Guntur, Andhra Pradesh. The National Company Law Tribunal approved the resolution plan submitted by SCL for the acquisition of ACL on 16 February 2023. The resolution process was completed in March 2023. The company was not operational during FY20-FY23 but commenced operations in 1QFY24. It has a cement grinding capacity of 2.25mnt.

Incorporated in 1981, SCL has a consolidated cement manufacturing capacity of 10.5mnt and clinker capacity of 6.6mnt (post ACL acquisition). SCL has a strong presence in southern India with recent expansions in central and eastern India with six active manufacturing facilities.

Key Financials Indicators

Particulars (Consolidated)	FY24	FY23
Revenue (INR billion)	25.05	22.30
EBITDA (INR billion)	2.46	1.53
EBITDA margins (%)	9.8	6.9
Gross interest coverage (x)	1.33	0.76
Net leverage (x)	5.18	8.47
Source: SCL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

ACL has been classified under the non-cooperation by issuer category by CareEdge Ratings (CARE Ratings Limited) due to inadequate information provided by the company.

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Rating/Outlook	Historical Rating/ Outlook	
				16 October 2023	31 March 2023
Fund-based working capital limit	Long-term	INR350	IND BBB+/Negative	IND BBB+/Negative	IND BBB+/Stable
Non-fund-based working capital limit	Long-term/Short-term	INR600	IND BBB+/Negative/IND A2	IND BBB+/Negative/IND A2	IND BBB+/Stable/IND A2
Term loan	Long-term	INR5,999.8	IND BBB+/Negative	IND BBB+/Negative	IND BBB+/Stable

Bank wise Facilities Details

Click here to see the details

ANDHRA CEMENTS LIMITED

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Non-fund-based working capital limit	Low
Fund-based working capital limit	Low
Term loan	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Contact

Primary Analyst
Sarthak Bhauwala
Senior Analyst
India Ratings and Research Pvt Ltd
Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
02240356154
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Siddharth Rego
Associate Director
+91 22 40356115

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.
Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.
Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.
India Ratings is a 100% owned subsidiary of the Fitch Group.
For more information, visit www.indiaratings.co.in.

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.
Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

ANDHRA CEMENTS LIMITED