SANGHI CEMENT
Turning Dreams into Concrete Reality

24th September, 2022

The General Manager **BSE Ltd.** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001	The Assistant Vice-President **The National Stock Exchange of India Ltd.** Exchange Plaza, 5th Floor, Plot No.C/1, G Block, Bandra Kurla Complex Bandra (East), Mumbai – 400 051

Dear Sir,

Sub: Intimation about Revision in Credit Rating under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

We would like to inform that the Company has received intimation of revision in credit ratings from India Ratings & Research Pvt. Ltd. through their e mail dated 23rd September, 2022 the details of which are as under:

Instrument Type	Rated Amount (in Crores)	Existing Rating / Outlook	Revised Rating / Rating Watch	Rating Action
Term Loan	Rs.794.50 Crore	IND BBB/Negative	IND BB+/RWN	Downgraded placed on RWN
Non-Convertible Debentures	Rs.305 Crore	IND BBB/Negative	IND BB+/RWN	Downgraded placed on RWN
Fund based Limits	Rs 285 Crore	IND BBB/Negative	IND BB+/RWN	Downgraded placed on RWN
Non fund based limits^	Rs 40 Crore	IND A3+	IND A4+/RWN	Downgraded placed on RWN

^ interchangeable with fund based limits.

We are enclosing the letter received from India Ratings & Research Pvt. Ltd. regarding revision in credit ratings.

Kindly take the same on your records.

Thanking you,
Yours faithfully,

For Sanghi Industries Ltd.

ANIL RAMSAHAY AGRAWAL
Digitally signed by ANIL RAMSAHAY AGRAWAL
Date: 2022.09.24 14:19:48 +05'30'

Anil Agrawal
Company Secretary

Encl: As above

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India Ratings Downgrades Sanghi Industries & its NCDs to 'IND BB+'; Places on RWN

Sep 23, 2022 | Cement

India Ratings and Research (Ind-Ra) has downgraded Sanghi Industries Limited's (SIL) Long-Term Issuer Rating to 'IND BB+' from 'IND BBB' and placed the ratings on Rating Watch Negative (RWN). The instrument-wise rating actions are as follows:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Rating Watch	Rating Action
Term loan	-	-	-	FY31	INR7,945	IND BB+/RWN	Downgraded; placed on RWN
Non-convertible debentures (NCDs)	INE999B07036	23 February 2021	14/15/16*	23 February 2027	INR3,050	IND BB+/RWN	Downgraded; placed on RWN
Fund-based limits	-	-	-	-	INR2,850	IND BB+/RWN	Downgraded; placed on RWN
Non-fund-based limits^	-	-	-	-	INR400	IND A4+/RWN	Downgraded; placed on RWN

^interchangeable with fund-based limits
*first 12 months/13-24 months/25th month onwards

The downgrade reflects the worsening of SIL's liquidity cushion owing to the delay in the management's liquidity infusion plan exacerbated by the high input cost environment, leading to a weak profitability. The management is tying up funds by mid-October 2022 to improve the company's liquidity position.

The RWN reflects the risks to SIL's credit profile in case of a delay in the consummation of the transaction. Ind-Ra will continue to monitor the progress and timelines of the transaction, and any further delay would be negative for the ratings.

Key Rating Drivers

Liquidity Indicator - Poor; Delay in Fund Infusion and Cost Headwinds Limit Headroom: After a modest scheduled repayment of INR0.5 billion in FY22 post the debt refinancing in February 2021, SIL has a scheduled debt repayment of around INR0.9 billion in FY23 (including expansion loans which commence repayment from October 2022), for which the company has a limited cushion in the form of internal accruals, given the impact of cost headwinds on profitability. SIL continued to witness a fall in profitability with EBITDA/metric tonne (mt) declining sharply to INR309 in 1QFY23 (FY22: INR821, 1QFY22:INR1,100) owing to the doubling of power and fuel cost/mt. Sale volumes (cement and clinker) remained flattish at 0.61million tonne (mnt; 1QFY22: 0.60mnt) while cement sale volumes grew 15% yoy after around 20% yoy growth in volumes in April and May 2022. As a result, the overall EBITDA contracted to INR0.2 billion in 1QFY23 (1QFY22: INR0.7 billion). With a weak start to the year and input costs at elevated levels in 2QFY22, Ind-Ra expects SIL's overall EBITDA generation in FY23 to fall short of Ind-Ra's expectations in its last review, despite the cost-reduction measures being taken by the management.

Furthermore, SIL's average utilisation of its fund-based working capital limits was around 95% during the 12 months ended July 2022 with unused lines of around INR200 million-INR250 million over the last six months ended July 2022. Ind-Ra understands from the management that the company has unused drawable bank lines of around INR250 million in addition to a debt service reserve account of around INR300 million at mid-September 2022, which can be used towards debt servicing if required. The free cash balances remained low at INR1.4 million at FYE22. SIL's cash flow from operations post net interest expense rose to INR3,241 million in FY22 (FY21: INR2,372 million), mainly due to a reduction in working capital owing to an increase in trade payables. The company's ability to manage its working capital would be key to the overall liquidity. Management has been working on various measures to infuse significant funds into the company, which were likely to be completed by August 2022 (after a delay from 1QFY23). The liquidity infusion is likely to be used for the prepayment of high-cost debt and improve its working capital levels to aid the increasing scale of operations. The delay in fruition of these plans coupled with a lower-than-expected internal accruals, leaves limited liquidity headroom. While the company is tying up funds, the infusion is likely only by mid-October as per management. In FY21, the promoters and group company infused unsecured loans of INR71.8 million. Management has been communicating to Ind-Ra that the promoters can readily infuse the required funds in the company to manage any liquidity mismatch. Thus, Ind-Ra will continue to closely monitor the developments on the liquidity infusion plans and any further delay could significantly affect the company's credit profile.

Deleveraging Delayed due to Delay in Capex Completion and Stabilisation; Volume Ramp-up and Equity Infusion Key to Deleveraging: SIL had completed the capex towards its 3.3mnt clinker and 2mnt grinding unit in Kutch in February 2021 (after a delay of around a year exacerbated by COVID-19), however, the new unit was under stabilisation process till 3QFY22 and the limited production had to be blended with production from the existing plant. With the stabilisation process and a slow recovery in demand in the western region post COVID-19, SIL's total sales volumes stood at 2.3mnt during FY22 (FY21: 2.1mnt), lower than the annual sales volumes of 2.4-2.9mnt over FY17-FY19. As a result, after improving to 5.7x in FY21, the net leverage (net debt/EBITDA) deteriorated to 7.0x in FY22, due to a decline in the EBITDA to INR1.9 billion (FY21: INR2.4 billion). The capex of around INR16.6 billion over FY19-FY22 (including the expansion) coupled with the production issues faced by the company and the hit on sales demand due to COVID-19 led to the deterioration in the net leverage from a comfortable level of 1.5x in FY18 (FY19: 4.2x, FY20: 6.2x).

The new plant was stabilised during 4QFY22. Thus, Ind-Ra expected the volumes and market share to improve over FY23 with the availability of higher capacity and the government's increased focus on infrastructure, along with its sale contracts for domestic sales and export of clinker. However, SIL's operational performance was weak in 1QFY23 and given the continued pressure from high power and fuel costs, ramp-up in volumes and improvement in operating efficiencies are key for growth in EBITDA. Management has informed Ind-Ra that the company has initiated cost-reduction measures by substituting coal with high-quality lignite sourced from Gujarat Mineral Development Corporation Ltd and waste heat recovery system to about half of the requirements, which is likely to partially mitigate the impact of high power and fuel prices. However, with the industry capacity utilisations remaining range bound in FY23, Ind-Ra expects an increase in cement prices to be restricted to a mid-single digit, falling short of the increase in costs due to elevated fuel prices, thereby pressuring the EBITDA/mt.

In the absence of liquidity infusion, Ind-Ra expects the net leverage to remain high in FY23. The fructification of liquidity plans could improve the net leverage depending on the debt-equity mix and will be a key rating monitorable. SIL's EBITDA interest coverage (EBITDA/interest expense) deteriorated to 2.3x in FY22 (FY21: 3.3x) due to the decline in EBITDA. The interest coverage is likely to deteriorate further in FY23 as the company stops interest capitalisation along with the fact that the NCDs carry a stepped-up interest rate of 14%-16%, higher than other loans.

Robust Business Profile despite Limited Geographical Diversification: SIL is the third-largest cement company in Gujarat. Furthermore, its market share is likely to strengthen over the medium term with the smooth operations of the existing plants and a gradual ramp-up of its expanded capacity. The company completed its capex in February 2021, which resulted in a significant increase in its grinding capacity to 6.1mnt from 4.1mnt and clinker capacity to 6.6mnt from 3.3mnt. Management plans to increase its clinker exports, since the capacity has doubled, which is not commensurate with the increase in the grinding capacity. The company also sells cement in the markets of Rajasthan, Maharashtra and Kerala. SIL, post the capex completion, has a 130MW multi-fuel captive thermal power plant and a 13MW waste heat recovery system which fulfil its entire power requirements. Also, SIL has a multi-fuel kiln (pet coke, coal, and lignite), which enables it to switch fuels depending on their prices. Moreover, the company can source lignite at competitive rates, given its proximity to Gujarat Mineral Development Corporation's lignite mines. SIL also has a private jetty for exporting clinkers to countries such as Sri Lanka, the UAE and Africa. The private jetty also assists SIL in accessing other Indian states on the coastal line for clinker sales and import pet coke and coal directly to the plant.

While SIL is a strong player in Gujarat, its geographical presence remains limited as the state constitutes 80%-85% of the company's total cement sales. Management expects sales from Kerala and Maharashtra, and the export of clinker to improve over the medium term due to the increased capacity. However, Ind-Ra believes the company will continue to focus on Gujarat market, given its established market position and freight cost advantage.

Rating Sensitivities

The RWN indicates that the ratings may be either downgraded or affirmed upon resolution. Ind-Ra will review the ratings in mid-October 2022 and resolve the RWN upon completion of the liquidity infusion transaction. Any further delay in liquidity infusion will be negative for the ratings.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on SIL, either due to their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

Incorporated in 1985, SIL has a grinding capacity of 6.1mmtpa and a clinker capacity of 6.6mmtpa. It also has a 130MW captive thermal power plant, captive mines, a water de-salination facility, and a captive port in Kutch which can handle 1mmtpa of cargo. SIL sells ordinary portland cement, portland pozzolana cement and portland slag cement in Gujarat, Rajasthan, Maharashtra and Kerala and international markets of the Middle East, Africa and the Indian sub-continent.

FINANCIAL SUMMARY-

Particulars	FY22	FY21
Revenue (INR billion)	11.3	9.4
EBITDA (INR billion)	1.9	2.4
EBITDA margin (%)	17.0	25.6
EBITDA interest coverage (x)	2.4	3.6
Net leverage (x)	6.9	5.7
Source: SIL, Ind-Ra		

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.

Rating History

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook					
	Rating Type	Rated Limits (million)	Rating	15 July2022	17 March 2022	19 March 2021	5 February 2021	9 June 2020	8 August 2019
Issuer rating	Long-term	-	IND BB+/RWN	IND BBB/Negative	IND A-/Negative	IND A/Negative	IND A/Negative	IND A/Negative	IND A/Stable
NCDs	Long-term	INR3,050	IND BB+/RWN	IND BBB/Negative	IND A-/Negative	IND A/Negative	IND A/Negative	-	-
Term loans	Long-term	INR7,945	IND BB+/RWN	IND BBB/Negative	IND A-/Negative	IND A/Negative	IND A/Negative	IND A/Negative	IND A/Stable
Fund-based limits	Long-term	INR2,850	IND BB+/RWN	IND BBB/Negative	IND A-/Negative	IND A/Negative	IND A/Negative	IND A/Negative	IND A/Stable
Non-fund-based limits	Short-term	INR400	IND A4+/RWN	IND A3+	IND A2+	IND A1	IND A1	IND A1	IND A1

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loan	Low
NCDs	Low
Fund-based limits	Low
Non-fund-based limits	Low

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

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

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