Turning Dreams into Concrete Reality

10th June, 2023

The General Manager **BSE Ltd.** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001	The Assistant Vice-President **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,

<u>Sub: Intimation about revision in Credit Rating under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.</u>

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 9th June, 2023 the details of which are as under:

Instrument Type	Rated Amount (in Crores)	Existing Rating / Outlook	Revised Rating / Outlook	Rating Action
Term Loan	Rs.578.30 Crore	IND BB+/Stable	IND BB / Negative	Downgraded
Non-Convertible Debentures	Rs.280 Crore	IND BB+/Stable	IND BB / Negative	Downgraded
Fund based Limits	Rs.185 Crore	IND BB+/Stable	IND BB / Negative	Downgraded
Non fund based limits^	Rs.140 Crore	IND A4+	IND A4+	Affirmed

^ INR 40 Crore interchangeable with fund based limits.

We are enclosing the report regarding revision in credit rating from India Ratings & Research Pvt. Ltd.

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: 2023.06.10 15:20:20 +05'30'

Anil Agrawal
Company Secretary

Encl: As above

India Ratings & Research
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India Ratings Downgrades Sanghi Industries & its NCDs to 'IND BB'; Outlook Negative

Jun 09, 2023 | Cement & Cement Products

India Ratings and Research (Ind-Ra) has downgraded Sanghi Industries Limited's (SIL) Long-Term Issuer Rating to 'IND BB' from 'IND BB+/Stable'. The Outlook is Negative. The instrument-wise rating actions are as follows:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	-	-	-	FY31	INR5,783	IND BB/Negative	Downgraded
Non-convertible debentures (NCDs)	INE999B07036	23 February 2021	14/15/16/18*	23 February 2027	INR2,800	IND BB/Negative	Downgraded
Fund-based limits	-	-	-	-	INR1,850	IND BB/Negative	Downgraded
Non-fund-based limits^	-	-	-	-	INR1,400	IND A4+	Affirmed

^INR400 million interchangeable with fund-based limits
*first 12 months/13-24 months/25-36 months/37th month onwards

The downgrade and Negative Outlook reflect a likelihood of SIL's weaker-than-expected performance in FY24 and the resultant weak liquidity position.

Key Rating Drivers

FY24 Performance likely to be Significantly Weaker than Expected; Recovery in 2HFY24 Contingent upon Volume and EBITDA Improvement: In November 2022, SIL raised INR5 billion through the issuance of NCDs to Kotak Special Situations Fund and INR0.5 billion through an equity infusion from the promoters, which was used for the reduction of its debt (prepayment of term debt: INR2.1 billion; the reduction of working capital debt: INR1 billion) and to fund the operational requirements. With the resolution of immediate liquidity challenges, Ind-Ra had expected SIL's performance to improve 4QFY23 and the company to be able to meaningfully ramp up its volume and profitability FY24 onwards, which would have supported its interest obligations for FY24 and negligible repayments of INR20 million-25 million. However, against a mid-single-digit growth at the industry level, SIL's sales volumes were down 44% yoy to 0.4 million tonnes (mnt) in 4QFY23, indicating that the disruptions faced by the company over the past few months have affected the marketability of its product. This led to suboptimal variable costs as well as lower fixed cost absorption, which in turn led to EBITDA losses in 4QFY23. Furthermore, SIL's cement sales volumes fell 17% yoy to 1.7mnt in FY23, leading to it reporting negative EBITDA of INR0.1 billion (4QFY22: INR0.4 billion; FY22: INR1.9 billion).

While the core industry data indicates 11.6% yoy growth for the Indian cement industry in April 2023, Ind-Ra believes that SIL could continue to witness a volume decline in 1QFY24 with a meaningful recovery unlikely before 3QFY24, with the pace contingent on the company's ability to grow volumes while improving profitability. As a result, the agency expects SIL's performance in FY24 to be significantly lower than earlier expectations.

Liquidity Indicator – Poor: While SIL has minimal repayment obligations in FY24 as it had prepaid most of its principal obligations for the year, its interest obligations remained high (4QFY23: INR0.7 billion). Excluding redemption premium, the interest servicing obligations could be INR0.5 billion-0.6 billion each quarter. SIL's utilisation of its working capital limits during the 12 months ended April 2023 remained high at above 90%, indicating a limited cushion of around INR0.2 billion. There was an instance of devolvement in the letter of credit (LC) in the first fortnight of May 2023 and the management stated that the LC devolvement has not exceeded 30 days and has been regularised. The management has also indicated that the same is not because of inadequate liquidity in the company but due to the difference in the understanding of the treatment of the debt service reserve account balance, and they are in discussion with the lender to resolve the same.

Ind-Ra will continue to monitor the developments and the inability of the company to resolve it and settle the outstanding dues within 30 days from the date of the devolvement would be negative for the ratings. The promoters infused over INR0.27 billion in SIL during April-May 2023 and the management stated that additional funds would be infused as needed. The promoters in May 2023 monetised some assets, which provide visibility towards the immediate liquidity infusion and are exploring multiple avenues to shore up liquidity. Considering the minimal unencumbered cash on balance sheet (FYE23: INR9.2 million; FYE22: INR1.4 million) and limited operational cash flow generation, a significant fund infusion by the promoters would be essential for the company to timely service its debt obligations in FY24. Thereafter, the company has scheduled repayment of around INR1.7 billion in FY25 in addition to the interest expense. Furthermore, the NCDs issued in November 2022 have a three-year bullet maturity and the company would need a large fund infusion to meet the same.

Credit Metrics likely to Remain Weak in FY24: With a negative EBITDA, SIL's credit metrics were weak in FY23. While the fund infusion had provided a temporary respite to the liquidity, SIL's net debt increased to around INR15.3 billion at FYE23 (FYE22: INR13.3 billion) as 90% of the fund infusion of INR5.5 billion was in the form of debt. With the likelihood of a weaker-than-earlier expected performance, Ind-Ra expects the net leverage (net debt/EBITDA) to remain high in FY24 and the gross interest coverage (gross interest expense/operating EBITDA) to remain under pressure (FY22: 2.3x; FY21: 3.3x), with the pace of deleveraging contingent on the recovery in EBITDA.

The company completed a large 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, with the new unit being under the stabilisation process till 3QFY22 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. The capex of around INR16.6 billion over FY19-FY22 (including the expansion), 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 to a peak of 6.2x in FY20. After improving to 5.7x in FY21, the net leverage deteriorated to 7.0x in FY22, due to the decline in the EBITDA.

Robust Business Profile despite Limited Geographical Diversification: SIL is the third-largest cement company in Gujarat. 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. Post the capex completion, SIL has a 130MW multi-fuel captive thermal power plant and a 13MW waste heat recovery system, which fulfils 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 had historically been a strong player in Gujarat, its geographical presence remains limited, as the state constitutes 80%-85% of the company's total cement sales. The company also sells cement in Rajasthan, Maharashtra and Kerala.

Rating Sensitivities

Positive: A significant recovery in the EBITDA, leading to a significant improvement in the financial profile and liquidity, with EBITDA interest coverage remaining above 1.5x, all on a sustained basis, could lead to the Outlook revision to Stable.

Negative: Continued weakness in profitability and/or a sharper-than-expected increase in working capital requirements, leading to a deterioration in the liquidity position, could 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, due to either 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 6.1million metric tonnes per annum (mmpta) 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	FY23	FY22
Revenue (INR billion)	9.3	11.3
EBITDA (INR billion)	-0.1	1.9
EBITDA margin (%)	-1.5	17.0
EBITDA interest coverage (x)	-0.1	2.4
Net leverage (x)	-108.4	6.9
Source: SIL, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

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/Outlook			Historical Rating/Rating Watch/Outlook					
	Rating Type	Rated Limits (million)	Rating	20 January 2023	23 September 2022	15 July2022	17 March 2022	19 March 2021	Fe
Issuer rating	Long-term	-	IND BB/Negative	IND BB+/Stable	IND BB+/Rating Watch with Negative Implications	IND BBB/Negative	IND A-/Negative	IND A/Negative	A/
NCDs	Long-term	INR2,800	IND BB/Negative	IND BB+/Stable	IND BB+/Rating Watch with Negative Implications	IND BBB/Negative	IND A-/Negative	IND A/Negative	A/
Term loans	Long-term	INR5,783	IND BB/Negative	IND BB+/Stable	IND BB+/Rating Watch with Negative Implications	IND BBB/Negative	IND A-/Negative	IND A/Negative	A/
Fund-based limits	Long-term	INR1,850	IND BB/Negative	IND BB+/Stable	IND BB+/Rating Watch with Negative Implications	IND BBB/Negative	IND A-/Negative	IND A/Negative	A/
Non-fund-based limits	Short-term	INR1,400	IND A4+	IND A4+	IND A4+/Rating Watch with Negative Implications	IND A3+	IND A2+	IND A1	I

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

Policy for Placing Ratings on Rating Watch

The Rating Process

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

DETAILED FINANCIAL SUMMARY

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