

22<sup>nd</sup> March, 2021

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

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

1. We would like to inform that the entire credit facility of the Company is now rated by India Rating & Research Pvt. Ltd. It has assigned / affirmed the long term credit rating of IND A/ Negative Outlook and short term credit rating as IND A1.
2. We would like to inform that the company has requested ICRA to withdraw Rating for Non Convertible Debentures (NCD) of Rs 258 Crore as the same were repaid and also requested for withdrawal of Rating on all other facilities. Pursuant to our requests as above, ICRA has reviewed and revised the long term rating to BBB+ (Stable) and short term credit rating as ICRA A2. The rating is in the process of withdrawal as per company's request.

The rationale for both above is enclosed.

Kindly take the same on your records.

Thanking you,  
Yours faithfully,  
For Sanghi Industries Ltd.

  
Anil Agrawal  
Company Secretary



**Sanghi Industries Limited**

CIN No. : L18209TG1985PLC005581

Registered Office : P.O. Sanghinagar, Hayatnagar Mandal, R R District, Telangana - 501511.

Tel. : 08415 - 242240 E-mail : companysecretary@sanghiment.com

Website : www.sanghiment.com

## Extracts from India Rating & Research Pvt. Ltd

**India Ratings Assigns Sanghi Industries' Additional Term Loan 'IND A'/Negative, Affirms Others**

### OVERVIEW

India Ratings and Research (Ind-Ra) has taken the following rating actions on Sanghi Industries Limited (SIL):

### CURRENT RATINGS

Instrument Type	ISIN	Date of issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Stable	Rating Action
Long-Term Issuer Rating		-	-	-	-	IND A/Negative	Affirmed
Term Loan				FY25	INR1,220	IND A/Negative	Assigned
Non-convertible debentures (NCDs)	INE999 B07036	23 February 2021	14%/15 %/16%*	23 February 2027	INR3,050	IND A/Negative	Affirmed
Fund-based limits		-	-	-	INR2,850	IND A/Negative	Affirmed
Non-fund-based limits <sup>^</sup>		-	-	-	INR400	IND A1	Affirmed
Term loans		-		FY30	INR7,150	IND A/Negative	Affirmed

<sup>^</sup>interchangeable with fund-based limits

\*first 12months/13-24 months/25<sup>th</sup> month onwards

The affirmation reflects SIL's robust market position, operational recovery in 3QFY21 and improvement in its liquidity position due to refinancing in February 2021. While the net leverage is likely to remain elevated over FY21-FY22 due to the capex undertaken and COVID-19 impact on demand, Ind-Ra draws comfort from the recovery in 2HFY21 and the capex completion, providing visibility of deleveraging by FY23.

### KEY RATING DRIVERS

**Robust Business Profile:** SIL is the third-largest cement company in Gujarat and its market share is likely to strengthen over the medium-term with smooth operations of the existing plants and a gradual ramp-up of its expanded capacity. The company also sells cement in the markets of Rajasthan, Maharashtra, and Kerala. SIL has a 63MW multi-fuel captive thermal power plant and a 13MW waste heat recovery system which fulfil its entire power requirements. In addition, the company is setting up a 68MW thermal power plant to meet the increased power requirements, post expansion. Also, SIL has a multi-fuel kiln (pet coke, coal, and lignite), which enables the company to switch fuels depending on

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their prices. Moreover, the company can source lignite at competitive rates, given its proximity to GMDC Ltd.'s lignite mines. SIL also has a private jetty for exporting clinkers to countries such as Sri Lanka, UAE and African countries. It also assists SIL in accessing other Indian states on the coastal line for clinker sales and to import pet coke and coal directly to the plant. SIL has also completed dredging activities at its jetty facility for enabling higher capacity ships/barges to voyage directly to the jetty.

**Demand Recovery in 3QFY21:** SIL's sales volumes started growing from in 3QFY21, after the western India (where it is predominantly present) started showing a recovery, delayed by a quarter compared to most other regions. Sale volumes (cement+clinker) increased 66% yoy to 0.7 million tonnes (mnt) in 3QFY21 on a weak base as the company had to defer its annual maintenance shutdown to 3QFY20 instead of the seasonally weak 2Q because of the heavy rainfall in its plant area. The sale volume in 3QFY21 was in line with the sales achieved by the company in 3QFY19. The strong performance in 3QFY21 limited the volume decline to 2% yoy in 9MFY21. With the expectation of robust volumes in 4QFY21, the company likely to achieve volume growth in FY21 after a 27% yoy decline in volumes in FY20 due to a combination of production issues and the lockdown affecting peak demand in March that led to cement capacity utilisation for the year falling to 48% (FY19: 64%) . While Ind-Ra believes the recovery in the western region to be more prolonged, given the higher proportion of urban demand and higher COVID-19 incidence, SIL is likely to regain its market share with production issues sorted and the availability of a higher capacity to cater to the market growth. SIL also benefits from the sale contracts for domestic sales and export of clinker.

**Cost Benefits Result in Healthy EBITDA/mt:** Despite weak volumes until 3QFY21, SIL's average EBITDA/metric tonne (mt) for the last seven quarters was in excess of INR1,000/mt (3QFY21: 1,059/mt, 2QFY21: INR938/mt, 1QFY21: 1,159/mt), largely attributable to a decline in variable costs including power fuel and freight. Thermal coal prices fell by around 15% yoy in 9MFY21 (FY20: down 30%yoy), aiding the bottom line of cement companies even as diesel prices increased sharply. SIL's EBITDA/mt increased to INR1,048 in 9MFY21 (9MFY20: INR991), leading to a 3% yoy increase in absolute EBITDA to INR1.46 billion, despite a volume decline. While industry coal prices have increased in the past couple of months, SIL's EBITDA will be cushioned by an increase in high-quality lignite sourced from GMDC. Furthermore, SIL has tied-up with an exclusive packing terminal in Kochi port, whereby SIL transports bulk cement to the port and packs it at the facility to be sold under the Sanghi brand, resulting in a scope for volume growth and some freight cost savings. Also, given its production issues in FY20, the company had to buy clinker externally, which coupled with reduced scale led to a higher cost. After a decline in 2QFY21 on account of a weak demand, SIL's cement realisations remained flattish in 3QFY21 and the company has taken a price hike in 4QFY21.

**Liquidity Indicator – Adequate:** SIL has been generating positive cash flow from operations since FY17 which is likely to remain positive over the medium term, given the increase in EBITDA and some unwinding of working capital. The cash flow from operations (post net interest expense) reduced drastically to INR4 million in FY20 (FY19: INR684 million), mainly due to a build-up of inventory related to capex. The free cash flow is likely to remain negative till FY21, due to the large expansion capex post, though it is likely to turn positive FY22 onwards since the capex has been completed. SIL's average utilisation of its fund-based working capital limits was 90%-95% during the 12 months ended February 2021, indicating limited cushion in the fund-based limits.

SIL has refinanced its existing NCDs and part of its term loan by way of an NCD issuance of INR3.05 billion in February 2021. The refinancing will aid the company's liquidity, reducing its repayment obligations to INR0.3 billion in FY21 and around INR0.5 billion in FY22 against bulky repayments (FY21: INR1.7 billion, FY22: INR1.3 billion) earlier, resulting in a comfortable DSCR..

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### **Demand Hit and Capex lead to Elevated Net Leverage; Recovery Likely by FY23:**

The production issues faced by the company in FY20 and the hit on demand due to COVID-19 in FY21, coupled with the expansion project underway, have delayed the deleveraging process. SIL has set up another 3.3mtpa clinker unit, 2mtpa grinding unit and 68MW thermal plant in Kutch at a total cost of INR10.8 billion, funded by a debt of INR6.9 billion and the balance by internal accruals. The project, which was originally to commission in February 2020, commenced operations in end-February 2021 with the delay largely attributable to COVID-19. As a result, the net leverage, that peaked at 6.2x in FY20 (FY19: 4.2x), is likely to remain elevated in FY21-FY22 before gradually reducing to around 3x in FY23 as the new capacities ramp-up and generate EBITDA. The interest coverage improved to 2.8x in 9MFY21 (9MFY20: 2.5x, FY20: 2.5x; FY19: 2.7x) because of the increase in EBITDA. .

### **Limited Geographical Diversification:**

While SIL is a strong player in the Gujarat market, its geographical presence remains limited. Gujarat constitutes 80%-85% of the company's total cement sales where its existing as well as upcoming plant are located. While sales to other markets such as Kerala and Maharashtra could increase post expansion, the company will continue to focus on the Gujarat market, given its established market position and freight cost advantage.

### **RATING SENSITIVITIES**

**Negative:** Continued sub-optimal capacity utilisation and weak profitability, resulting in reduced visibility of improvement in net leverage reducing below 3x post FY22 could lead to a negative rating action. Also, a delay in the conclusion of refinancing would be viewed negatively.

**Positive:** Ind-Ra could revise the Outlook to Stable upon the visibility of a demand recovery, ramp-up of the capacity utilisations and a substantial improvement in the profitability, leading to an improvement in the credit metrics and visibility of net leverage reducing below 3x post FY22.

### **RATING CRITERIA**

Corporate Rating Methodology, Short-Term Ratings Criteria for Non-Financial Corporates

### **COMPANY PROFILE**

Incorporated in 1985, SIL has a grinding capacity of 4.1mmtpa and a clinker capacity of 3.3mmtpa. It also has a 63MW 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 Indian markets of Gujarat, Rajasthan, Maharashtra and Kerala and international Markets of Middle East, Africa and the Indian sub-continent.



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### Extracts from ICRA Limited

Sanghi Industries Limited: Rating downgraded to [ICRA]BBB+/A2 and outlook revised to Stable; NCD rating withdrawn

### Summary of rating action

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Non-Convertible Debenture Programme (NCD)	258.00	0.00	[ICRA]BBB+ Withdrawn; Downgraded from [ICRA]A-; outlook revised to Stable from Negative
Term Loan	134.00	134.00	[ICRA]BBB+; Downgraded from [ICRA]A-; outlook revised to Stable from Negative
Long-term Fund Based Limit	200.00	200.00	[ICRA]BBB+; Downgraded from [ICRA]A-; outlook revised to Stable from Negative
Short-term Fund Based limit	60.00	60.00	[ICRA]A2; Downgraded from [ICRA]A2+
Non-Fund Based Limit	15.00	15.00	[ICRA]A2; Downgraded from [ICRA]A2+
<b>Total</b>	<b>667.00</b>	<b>409</b>	

### Rationale

The rating downgrade for Sanghi Industries Limited (SIL) takes into consideration the weaker than expected performance of the company with capacity utilisation for its cement plant dropping to a low of 43% during 9M FY2021 (over 48% in FY2020 and 65% in FY2019) due to weak demand scenario following the nation-wide lockdown. ICRA notes that the cement despatches of SIL had weakened significantly during H1 FY2021 before showing some signs of improvement in Q3 FY2021. The rating downgrade also takes into consideration the expected delay in the anticipated improvement trajectory of the leverage and coverage metrics given the delay in overall ramp-up in the sales volume and profit generation. While the realisations for cement sustained at healthy levels, the lower-than-expected sales volumes and profitability are constraining SIL's liquidity position, especially since SIL has commissioned a large new capacity in February 2021. Debt service coverage (DSCR) is expected to remain around 1.1-1.4x, which is weak for the earlier rating category. ICRA had expected SIL's existing cement business to de-leverage on the back of healthy capacity utilisations, however, over the last 2-3 years, the company's performance has remained below expectations, constraining its cash flow generation. Further, while this new 4 MTPA clinker capacity at Kutch (Gujarat) was expected to get commissioned in Q4 FY2020, the COD was achieved only in February 2021 with a significant delay, largely attributable to the Covid-19 pandemic. The construction of the planned 2.0-MMT capacity grinding unit at Surat (Gujarat) has also been deferred by 18-24 months, which will further limit SIL's ability to achieve higher volumes by catering to an incremental market. With expected increase in interest and financing cost, going forward, SIL's ability to generate positive cash flows through clinker sales as envisaged will remain a key monitorable. Additionally, while SIL has been able to refinance its earlier 10.5% NCD with a new NCD of Rs. 305 crore, the interest rate for the same is higher-than-expected at 14-16%, which would further constrain the coverage metrics.

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The long-term rating assigned to SIL's NCD have been withdrawn at the request of the company and based on the No Due Certificate received, as well as in accordance with ICRA's policy on withdrawal and suspension.

The rating continues to take into consideration the benefits arising out of the integrated nature of the cement operations of SIL by way of easy /low-cost access to raw materials. The same is due to SIL's captive mines and production scale economies, given its large sized single kiln operations and ease of cement/clinker off-take by way of a captive jetty. The rating also factors in the company's access to a captive power plant with multiple fuel intake options. The rating, moreover, favourably factors in the expected improvement in contribution margins on the back of improved price realisations, ramp-up in capacity utilisation levels as well as the increasing proportion of its blended cement.

The rating, however, remains constrained by the vulnerability of the cement industry to cyclical trends and the geographical concentration risks in the company's cement business, since historically, about 85% of its sales were generated from Gujarat. This has further increased in FY2020 with sales from Gujarat driving 89% of its total sales since efforts were made to minimise the distance to market given the limited production. The rating also factors in the vulnerability of SIL's profitability to fluctuations in fuel and other raw material prices. The rating further takes into consideration SIL's moderate return indicators (given its relatively low-capacity utilisation level) and modest projected coverage indicators.



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