SAGAR CEMENTS LIMITED

Ref:SCL:SEC:2020-21

3rd August 2020

The National Stock Exchange of India Ltd.,
"Exchange Plaza", 5th Floor
Bandra – Kurla Complex
Bandra (East)
Mumbai – 400 051

Symbol: SAGCEM
Series: EQ

The Secretary
Bombay Stock Exchange Limited
P J Towers
Dalal Street
Mumbai – 400 001

Scrip Code: 502090

Dear Sirs,

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

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Pursuant to Regulation 30 read with Part A of Schedule III to SEBI (LODR) Regulations 2015, we are forwarding herewith a copy of the communication received from India Ratings and Research Private Limited affirming credit rating for our bank facilities, as `IND A-', Outlook is Stable.

Thanking you

Yours faithfully
For Sagar Cements Limited

R.Soundararajan
Company Secretary

Encl: a.a.

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IndiaRatings
&Research
A Fitch Group Company

India Ratings Affirms Sagar Cements at 'IND A-'/Stable

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JUL 2020

By Shochis Natrajan

India Ratings and Research (Ind-Ra) has affirmed Sagar Cements Limited's (SCL) Long-Term Issuer Rating at 'IND A-'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital limit*	-	-	-	INR1,320	IND A-/Stable /IND A2+	Affirmed
Non-fund-based working capital limit	-	-	-	INR1,000	IND A2+	Affirmed
Term loan	-	-	March 2022-March 2026	INR1,356.5 (reduced from INR1,607.4)	IND A-/Stable	Affirmed

*The working capital demand loan has been re-classified as fund-based working capital limits.

Analytical Approach: Ind-Ra continues to take a consolidated view of SCL and its subsidiaries - Sagar Cements (R) Limited (100% held by SCL; 'IND A-'/Stable), Satguru Cement Pvt Ltd (65%; 'IND A-'/Stable) and Jajpur Cements Pvt Ltd (100%; 'IND A-'/Stable) - due to the strong operating and strategic linkages and moderate legal linkages between the entities.

KEY RATING DRIVERS

Improving Operating Performance: Despite a steep sales volume decline in 1QFY21 (around 30% yoy decline) resulting from the COVID-19-led lockdown and the consequent economic slowdown, SCL registered EBITDA growth backed by superior realisations and a moderation in variable costs. In FY20, the volume decline was 6% yoy resulting from a change in the Andhra Pradesh state government and the overall economic slowdown. SCL's realisation per tonne increased to INR4,756 in 1QFY21 (1QFY20: INR4,197, FY20: INR3,753, FY19: INR3,664), following pan-India cement price hikes during 1QFY21. The company's profitability was also supported by the reduced input costs, especially those of power and fuel, due to a decline in the prices of coal and pet coke, and declined freight cost due to lower diesel prices and reduced lead distances leading to a moderation in the power and fuel and logistics costs (over 50% of the total cost). These factors resulted in the EBITDA/tonne jumping 63% yoy to around INR1,567 in 1QFY21 (1QFY20: INR959, FY20: INR592, FY19: INR450 million). In August 2019, SCL commissioned its entire power plant investments taking the total power capacity to 61.55MW (43.35MW), comprising 43MW thermal power plant and 18.55MW of green power, providing backward integration in terms of power. This resulted in the company being 100% self-sufficient in FY20 in terms of power as compared with 50% dependence on purchased power three years ago. Furthermore, the company has been efficiently using the locational advantage of the Sagar Cements (R)'s plant, reducing the effective lead distance, and the consequent freight expenses.

Geographically Diversified Player in South India: 82% of SCL's volume is from Andhra Pradesh (34%), Telangana (25%), Tamil Nadu (12%) and Karnataka (11%), with the company's brand Sagar Cements being a renowned one in southern India. The company also has a presence in Maharashtra (9%) and Odisha (8%), thereby being well-diversified in terms of sales flow. With the plants under Satguru Cement and Jajpur Cements coming on steam, the company's presence will improve in eastern, central, and western regions.

Liquidity Indicator - Adequate: SCL's average use of the fund-based and non-fund-based limits was high at 95% and 85%, respectively, for the 12 months ended May 2020. However, its liquidity is supported by the company generating positive cash flow from operations over FY14-FY20 (FY20: INR1,368 million, FY19: INR745 million), backed by improved profitability as well as working capital cycle (39 days, 53 days). Due to the company's ongoing capex majorly towards investments in power assets, the free cash flow was negative over FY17-FY20 (FY20: INR931 million, FY19: INR1,246 million). Ind-Ra expects the free cash flow to remain negative over FY21-FY22 due to the company's planned capex towards Satguru Cement and Jajpur Cements units. However, the capex funding has been already tied up, with company raising INR2,263 million of equity by converting its share warrants over FY19-FY21 and the remaining portion of debt for these projects, which has been guaranteed by SCL, is already sanctioned by the banks with structured long repayments. SCL opted for of the Reserve Bank of India's moratorium for its debt servicing over March-June 2020. However, due to the improved profitability and comfortable liquidity position, SCL has repaid its debt obligations and not opted for the second phase of the moratorium.

Capacity Expansion to Continue: SCL, which acquired Satguru Cement in May 2019, is setting up an integrated 1 million tonne per annum (MTPA) cement plant with waste heat recovery systems at Dhar, Madhya Pradesh, at an estimated cost of INR4,880 million. Also, to cater to the eastern markets, SCL acquired Jajpur Cements in May 2019 and is setting up a 1.5MTPA grinding unit at Jaipur (Odisha), at an estimated cost of INR3,080 million. These projects will increase SCL's overall cement capacity to 8.25MTPA from 5.75MTPA. However, due to the increased scope of work in Satguru Cement and the COVID-19-led lockdown, resulting in reduced labour availability and a delay in machine procurement, there would be delays of six months in the commissioning of both the plants as against earlier expectation of 31 March 2021.

Credit Metrics to Weaken: SCL's moderate credit metrics improved in FY20 due to the improvement in its EBITDA to INR1,855 million (FY19: INR1,494 million) and stable net debt level at around INR5,000 million. The EBITDA interest coverage improved to 2.97x in FY20 (FY19: 2.42x) and the net leverage (net debt/EBITDA) to 2.69x (3.35x). With the EBITDA likely to reduce or remain flattish year-on-year in FY21 resulting from a subdued demand scenario and increased fixed costs, coupled with higher debt drawdown due to the capex plans towards Satguru Cement and Jajpur Cements units, Ind-Ra expects the net leverage to deteriorate to around 4x in FY21 and FY22, post which it will normalise as SCL starts reaping cash flows from its commissioned plants; the interest coverage ratio is likely to remain stable in FY21 and FY22 due to the capitalisation of interest expense.

Industry Risks: SCL faces the risks of volatile cement prices, given the oversupply situation in southern India and the capacity additions in this region in FY20 as well as FY21. The cement industry faces demand risk because of the nature of its end-user industry. Among the sub-sectors, infrastructure and housing (individual as well as urban housing) account for almost 85% of cement demand; commercial and industrial demand constitutes the balance.

Standalone Profile: The revenue fell 6% yoy to INR7,287 million in FY20 due to a 9% yoy decline in the volumes sold (FY20: 2.27 million tonnes; FY19: 2.49 million tonnes). However, EBITDA rose 20% yoy to INR1,189 million in FY20 (FY19: INR993 million) on account of the increased realisations and reduced input costs. Consequently, SCL's net leverage improved to 2.09x in FY20 (FY19: 2.7x) and the interest coverage to 3.51x (2.99x).

RATING SENSITIVITIES

Positive: A steady increase in the consolidated sales volumes along with an improvement in the consolidated operating profitability, leading to an improvement in the consolidated net leverage below 2.5x, on a sustained basis, along with higher cushion on liquidity could be positive for the ratings.

Negative: A negative rating action could result from the following developments that could, individually or collectively, result in the consolidated net leverage exceeding and sustaining above 4x:

- cost overruns or delays in the cement projects, i.e. Satguru Cement and Jajpur Cement

- higher-than-expected debt-funded capex

- deterioration in the consolidated profitability due to SCL's inability to increase volumes and/or improve margins.

COMPANY PROFILE

Incorporated in 1981 and based in south India, SCL has a cement manufacturing capacity of 5.75MTPA and clinker capacity of 3.80MTPA.

FINANCIAL SUMMARY (Consolidated)

Particulars	FY20	FY19
Revenue (INR million)	11,752	12,176
EBITDA (INR million)	1,855	1,494
EBITDA margins (%)	15.8	12.3
Gross interest coverage (x)	2.97	2.42
Net Leverage (x)	2.7	3.4
Source: SCL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook	Historical Rating/Outlook

	Rating Type	Rated Limits (million)	Rating	26 February 2020	23 November 2018	25 May 2017
Issuer rating	Long-term	-	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable
Fund-based working capital limits	Long-term/ short-term	INR1,320	IND A-/Stable/IND A2+	IND A-/Stable/IND A2+	IND A-/Stable/IND A2+	IND A-/Stable/IND A2+
Non-fund-based working capital limits	Short-term	INR1,000	IND A2+	IND A2+	IND A2+	IND A2+
Term loan	Long-term	INR1,356.5	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

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

ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency 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.

DISCLAIMER

Applicable Criteria

Corporate Rating Methodology
Parent and Subsidiary Rating Linkage

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