SANGHI CEMENT
Turning Dreams into Concrete Reality

19th March, 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 19th March, 2022 the details of which are as under: :

Instrument Type	Rated Amount (in Crores)	Existing Rating / Outlook	Revised Rating / Outlook	Rating Action
Term Loan	Rs.794.50 Crore (Reduced from Rs 837 Crore)	IND A/Negative	IND A-/Negative	Downgraded
Non-Convertible Debentures	Rs.305 Crore	IND A/Negative	IND A-/Negative	Downgraded
Fund based Limits	Rs 285 Crore	IND A/Negative	IND A-/Negative	Downgraded
Non fund based limits^	Rs 40 Crore	IND A1	IND A2+	Downgraded

^ 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.

SANGHI INDUSTRIES LIMITED

Anil Agrawal
Company Secretary
Encl : As above

Sanghi Industries Limited
CIN No. : L18209TG1985PLC005581
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India Ratings Downgrades Sanghi Industries to 'IND A-'/Negative

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MAR 2022

By Aravind B

India Ratings and Research (Ind-Ra) has downgraded Sanghi Industries Limited's (SIL) Long-Term Issuer Rating to 'IND A-' from 'IND A'. 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	INR7,945 (reduced from INR8,370)	IND A-/Negative	Downgraded
Non-convertible debentures (NCDs)	INE999B07036	23 February 2021	14/15/16*	23 February 2027	INR3,050	IND A-/Negative	Downgraded
Fund-based limits	-	-	-	-	INR2,850	IND A-/Negative	Downgraded
Non-fund-based limits^	-	-	-	-	INR400	IND A2+	Downgraded

^interchangeable with fund-based limits

*first 12 months/13-24 months/25th month onwards

The downgrade reflects a slower-than-expected ramp up in SIL's sale volumes resulting in reduced EBITDA, a delay in deleveraging and a stretched liquidity position. The Negative Outlook reflects the challenges around cash flow generation starting mid-FY23, coinciding with the seasonally weak monsoon quarters, which could get exacerbated in the context of near-term input cost inflation. Timely infusion of funds by the management by 1QFY23 and a ramp-up of EBITDA will remain a key monitorable.

KEY RATING DRIVERS

Slower-than-expected Volume Ramp-up and EBITDA Generation during 9MFY22: SIL completed the capex towards its 3.3mtpa clinker and 2mtpa grinding unit at Kutch in February 2021, commencing production from the unit. 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 stabilistion process and a slow recovery in demand in the western region post the COVID-19 outbreak due to a higher proportion of urban demand, SIL's total sale volumes stood at 1.6mnt during 9MFY22, up 16% yoy but reasonably below the target compared to Ind-Ra's previous expectation of close to 3mnt of sales for FY22. The company registered volume growth of 9% yoy to 2.15mnt in FY21. SIL had achieved annual sales volumes of 2.4-2.9mnt over FY17-FY19.

During 9MFY22, the EBITDA/mt declined to INR916 due to higher power and fuel costs, broadly in line with Ind-Ra's expectations. However, the weak volumes have constrained the EBITDA which remained flattish at INR1.5 billion during 9MFY22 and with high power and fuel costs likely to result in a yoy decline for FY22 against the agency's expectations of a volume-led growth in EBITDA. SIL's EBITDA/mt improved around 10% yoy to INR1,120/tonne in FY21, driven by the twin tailwinds of an increase in realisation and a moderation in costs (largely attributable to lower power and fuel costs) which led the EBITDA to increase to INR2.4 billion (FY20: INR1.9 billion), exceeding Ind-Ra's expectations. The 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 (GMDC) and waste heat recovery system to 30%-35%, which is likely to mitigate the impact of high power and fuel prices. However, sustained high coal prices remain a risk.

Ind-Ra understands from the management that the new plant has been stabilised during 4QFY22 and is thus likely to generate healthy volumes and EBITDA/mt from 1QFY23. As a result, Ind-Ra expects the volumes and market share to improve over the near term 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. Furthermore, SIL has tied-up with 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. The ramp-up in volumes and improved operating efficiencies could help improve the EBITDA/mt in FY23 even though fuel costs could remain elevated over the near term while volume growth is likely to result in yoy growth in EBITDA. However, growth is likely to lag Ind-Ra's previous expectations by a year, which was lost due to the stabilisation process and modest demand recovery due to a pandemic-led drop in demand in FY21.

Delay in Deleveraging: The capex of around INR15 billion over FY19-1HFY22 (including the expansion), coupled with the production issues faced by the company and the hit on sales demand due to COVID-19 elevated the leverage from a comfortable level of 1.5x in FY18 to 4.2x in FY19 and 6.2x in FY20. SIL completed the capex in February 2021 at a total cost of around INR12 billion (including interest during construction (IDC) and expense capitalisation during a trial run of INR940 million during 9MFY22), funded by a debt of INR6.9 billion and the balance by internal accruals. The net leverage improved to 5.7x in FY21 due to an improvement in the absolute EBITDA and further to 5.8x during 9MFY22; it is likely to remain high in FY22, given the likely decline in the EBITDA.

In the absence of liquidity infusion, notwithstanding an improvement in FY23, Ind-Ra expects the net leverage to remain close to 4x, higher than the agency's earlier rating sensitivity of it being 3x post FY22, in line with Ind-Ra's previous expectations. The management has informed Ind-Ra of its plans to infuse significant liquidity which could result in a substantial improvement in the net leverage and will be a key rating monitorable. SIL's EBITDA interest coverage improved to 3.3x in FY21 (FY20: 2.5x) due to the higher EBITDA and capitalisation of IDC before declining to 2.4x during 9MFY22. The interest coverage is likely to remain lower in FY23 than that in FY21 as the company stops interest capitalisation along with the fact that the NCDs carry a stepped-up interest rate of 14%-16% as compared to other term loans cost at 10%-11%.

Liquidity Indicator – Stretched: SIL's cash flow from operations (post net interest expense) had improved significantly to INR2,372 million in FY21 from INR4 million in FY20, mainly due to a reduction in working capital and an increase in profitability. SIL's free cash flow (FCF) remained negative at INR1,309 million in FY21 (FY20: negative INR5,972 million). The FCF was negative on account of the capex and the same is partly funded through term loans and equity proceeds raised by the company during 4QFY18. However, the FCF could turn positive in FY22 and is likely to improve over the medium term in the absence of any major capex. SIL's average utilisation of its fund-based working capital limits was around 95% during the 12 months ended December 2021, along with low free cash balances of INR11.5 million and INR2.4 million at end-March 2021 and end-September 2021, respectively, indicating limited liquidity cushion.

After a modest scheduled repayment of INR0.5 billion in FY22 post the re-financing in February 2021, the repayment obligation for FY23 (including expansion loans which commences from 3QFY23) is around INR0.9 billion, for which, the company has limited cushion through internal accruals. Hence, the management has plans to infuse significant liquidity by 1QFY23 which is a key rating monitorable. Ind-Ra will continue to closely monitor the developments on the same. The liquidity infusion is likely to be used for the prepayment of high-cost debt and to improve the working capital levels to aid the increasing scale of operations. In

FY21, the promoters and group company infused unsecured loans of INR71.8 million and in case of any financial exigency, the management has communicated to Ind-Ra that the promoters can readily infuse the required funds in the company to manage any liquidity mismatch.

Robust Business Profile despite Limited Geographical Diversification: SIL is the third-largest cement company in Gujarat and 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 6.1mmtpa from 4.1mmtpa and clinker capacity to 6.6mmtpa from 3.3mmtpa. The management has 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 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 GMDC's lignite mines. SIL also has a private jetty for exporting clinkers to countries such as Sri Lanka, the UAE and African countries. The private jetty 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.

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

RATING SENSITIVITIES

Negative: Delays in liquidity infusion plans resulting in the company's inability to improve its liquidity position by mid-1HFY23 could lead to a further negative rating action. Additionally, lower-than-expected improvement in the profitability leading to the net leverage sustaining above 3.5x beyond FY22 could lead to a further negative rating action.

Positive: A significant improvement in the liquidity profile, coupled with a steady ramp-up of volumes, leading to an improvement in the EBITDA and the net leverage below 3.5x on a sustained basis could lead to the Outlook being revised to Stable.

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 Indian markets of Gujarat, Rajasthan, Maharashtra and Kerala and international markets of the Middle East, Africa and the Indian sub-continent.

FINANCIAL SUMMARY-

Particulars	FY21	FY20
Revenue (INR billion)	9.4	8.9
EBITDA (INR billion)	2.4	1.9
EBITDA margin (%)	25.6	21.7
EBITDA interest coverage (x)	3.6	2.5

Net leverage (x)	5.7	6.2
Source: SIL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook				
	Rating Type	**Rated Limits (million)**	**Rating**	**19 March 2021**	**5 February 2021**	**9 June 2020**	**8 August 2019**	**1 June 2018**
Issuer rating	Long-term	-	IND A-/Negative	IND A/Negative	IND A/Negative	IND A/Negative	IND A/Stable	IND A/Stable
NCDs	Long-term	INR3,050	IND A-/Negative	IND A/Negative	IND A/Negative	-	-	-
Term loans	Long-term	INR7,945	IND A-/Negative	IND A/Negative	IND A/Negative	IND A/Negative	IND A/Stable	IND A/Stable
Fund-based limits	Long-term	INR2,850	IND A-/Negative	IND A/Negative	IND A/Negative	IND A/Negative	IND A/Stable	IND A/Stable
Non-fund-based limits	Short-term	INR400	IND A2+	IND A1	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.

SOLICITATION DISCLOSURES

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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

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

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