SAGAR CEMENTS LIMITED

SCL:SEC:NSE:BSE:2019-20

30th July 2020

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

The Secretary
BSE Limited
P J Towers
Dalal Street
Mumbai – 400 001

Symbol: SAGCEM
Series: EQ

Scrip Code: 502090

Dear Sir,

Sub: Disclosure of material impact of COVID-19 pandemic on listed entities under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

...

In continuation to our letter dated 26th June, 2020 furnishing you with a brief note on the impact of COVID-19 on our operations, we are furnishing a detailed note on the impact of COVID-19 in line with the SEBI Circular issued for the purpose.

Thanking you

Yours faithfully
For Sagar Cements Limited

R.Soundararajan
Company Secretary

MGMT. SYS.
RvA C 024

IAF

DNV·GL ISO 9001 DNV·GL ISO 14001 DNV·GL OHSAS 18001

Note on COVID-19

General Overview:

Novel coronavirus disease (COVID-19) is a pneumonia disease detected in Wuhan, China. COVID-19 was declared as a public emergency of International concern on January 30, 2020 and declared as pandemic on March 11, 2020 by the World Health Organization (WHO)

The outbreak of Coronavirus (Covid-19) pandemic globally and in India is causing significant disturbance and slowdown of economic activity. In many countries including India, businesses are being forced to cease or limit their operations for long or indefinite period of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown.

Impact on Business operations:

Covid-19 has significantly impacted business operation of the companies in the group, by way of interruption in production, supply chain disruption, unavailability of personnel, closure /lock down of production facilities etc. Due to the Government of India order for a nationwide lockdown for 21 days which further got extended in a phased manner till May 31, 2020 to prevent community spread of Covid-19 in India resulting in significant reduction in economic activities.

Ability to maintain operations:

Based on directives of both Central and State Governments, the Company had suspended its operations from March 23, 2020.
During the lockdown period the Company took various precautionary measures like preventive shutdown maintenance at all the plant locations, enabling work from home facility for employees, timely payment of salaries to protect employees and their families from COVID-19.

Restarting of operations:

Operations have been resumed by the Company from May 03 & 04, 2020, by taking all necessary safety measures as laid down by the government for the purpose.

Steps taken to ensure smooth functioning of operations:

At the Company level, we have implemented stringent policies and measures to minimize risks for those who continue to work in our facilities and offices. Infact despite permission to operate being granted, as a matter of precaution we continued to keep our facilities shut until the first week of May and thereafter too we have been operating at minimal levels. Our various initiatives towards automation have helped considerably in these times,

Estimation of future impact of COVID-19 on operations:

Things have changed materially post the lockdown announcement which resulted in a virtual standstill of construction activities across the nation. Further, unavailability of workers and logistic challenges aggravated the situation even more for the Infrastructure projects. Pricing environment which remained more or less steady is now showing some semblance of improvement though it is too early to comment on whether the trend will remain the same.

Demand off-take was lower amidst the outbreak of Covid-19 pandemic, which further got aggravated post the announcement of nation-wide lockdown. Further, exodus of labour from construction sites also impacted the demand sentiments. With limited visibility on demand side, we focused our attention towards lowering our costs, which helped us soften the overall impact. The completion of Captive power plant and expansion of our Bayyavaram unit have helped us lower our fuel and freight expenses in recent years. Further, the completion of the ongoing projects viz. Satguru Cement and Jajpur Cements our subsidiaries will hopefully help us further improve our efficiencies.

The management has made an initial assessment, based on the current situation, of the likely impact of the lockdown on overall economic environment and cement industry, based on which it expects the cement demand to stabilize in due course.

Details of impact of COVID-19 on the company:

- **Capital and financial resources**

The company has opted to avail the RBI Covid relief package under which moratorium of 3 months towards servicing of interest and instalments on the working capital and term loan facilities. However, the company has serviced its Interest and repayment commitment to IFC against the outstanding debentures in the books of its 100% subsidiary Sagar cements (R) Limited. Further the company does not anticipate any challenge in its ability to continue as a going concern or meeting its financial obligations.

- **Profitability:**

The company has declared the financial results for Q1 FY21 on 29th July 2020, financial performance for the quarter on a consolidated basis is as follows:

Revenue from the operations stood at Rs. 264 crore as against Rs. 344 crore generated during the corresponding quarter last year, de-growth primarily owing to lower sales volumes on account of covid-19 related lockdown . Operating EBITDA for the quarter stood at Rs. 87 crore as against Rs. 79 crore reported during Q1 FY20, up 11% YoY, owing to better realisations and cost management.

Going forward much challenges is not been foreseen and we are more than hopeful of better financial performance going forward.

- **Liquidity Position:**

The liquidity position of the company is on sound footings and the company was able to collect from its customers as per the agreed terms, during Q1FY21. Going forward we do not foresee any major challenges on liquidity front.

- **Ability to service debt and other financing arrangements**

The company has serviced all its financial commitments to banks and other financial institutions as on June 30 2020.The company has also serviced its Interest and repayment commitment to IFC against the outstanding debentures issued by its wholly owned subsidiary Sagar cements (R) Limited. Further the company does not anticipate any challenge in its ability to continue as a going concern or meeting its financial obligations.

- **Assets**

The Company has considered internal and certain external sources of information, including economic forecasts and industry reports, in determining the possible effects on the carrying amounts of Investments made in the subsidiaries/Goodwill on consolidation, Inventories, receivables, deferred tax assets and other current assets, that may result from the COVID-19 pandemic. The Company has used the elements of prudence in applying the judgments and assumptions, including sensitivity analysis, and based on current estimates expects that the carrying amount of these assets will be recovered. The eventual outcome of impact of the global health pandemic may be different from those estimated as on the date of approval of these financial results.

- **Internal financial reporting and controls**

The Company has, in all material areas, adequate internal financial controls system over financial reporting and such systems are operating effectively as on date, based on the criteria for internal financial control over financial reporting established by the respective Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

Post COVID-19 outbreak the company has made an attempt to identify additional risks as a result of this pandemic and devised the probable controls to mitigate them. The details of probable risks and controls to mitigate those risks which have been identified post COVID-19 pandemic is provided below:

S. No.	Nature of Transaction	Risk Description	Control That Addresses Risk of Material Misstatement
1	Recording of sales	Sales are recognised even before the transfer of control to customers as per Ind AS 115	Acknowledged LRs received from customers through the transporters are traced into the dispatch register and thus entries in the dispatch register that are not supported by the acknowledged LRs are identified and sales reversed customer wise.
2	Recording of sales	Review of credit limits in terms of amount outstanding and period of outstanding is not done considering the impact of COVID 19 pandemic, which generally requires a downward adjustment and consequently leading to raise in in risk of bad trade receivables	Credit limits in amount and period are reviewed for all major customers, covering in aggregate not less than 90% of the trade receivables outstanding as at the end of every month, with assumptions made during the review in respect of each customer being put in writing and approved by JMD/CMO.
3	Recording of sales	Invoices are generated in excess of the revised credit limits to make up for the COVID 19 pandemic and increasing the probability for Bad trade receivables.	Invoices can be generated only to the extent of the limits specified into customer master and the revision of limits is incorporated in the master only after the written approval of the JMD/CMO, based on the recorded reasons justifying the stand.

S. No.	Nature of Transaction	Risk Description	Control That Addresses Risk of Material Misstatement
4	Recording of sales	Continued supplies to ongoing projects transitioning from pre pandemic period with overdue amounts to comply with the term of contracts and thus increasing the probability for bad debts	The management renegotiates the terms of the contract compatible with conditions prevailing in the COVID 19 pandemic period and after assessing the capability of the customer to pay for the goods supplied as per the revised credit limits.
5	Write offs of Bad debts of trade receivables	Trade receivables are not written off even when reasonable expectation of recovering the amount either in whole or in part is not supported by any observable evidence.	All overdue amounts, as per revised credit limits for amount of outstanding and period of outstanding in the light of COVID 19 pandemic , are reviewed on customer to customer basis and deviations if any from not writing off to be supported by reasonable evidence and approved by MD/JMD in writing.
6	Provision for Bad trade receivables	Significant increase in the credit risk from the initial recognition are not considered in the computation of ECL	Proper assessment of all the major customers' financial standing and ability to honor the terms of the transactions is reviewed and the probable emerging credit risk increase is suitably incorporated in the ECL calculations.
7	Provision for Bad trade receivables	Proper estimate of the loss in the event of the risk of default materializing is not made and incorporated into the calculations of ECL.	Based on constant efforts to obtain information on the financial standing, cash flow generations, and collaterals available, degree of business contraction etc. of all major customers a probable estimate of the quantum loss in the event of default occurrence is made and incorporated in the calculations of the ECL.

S. No.	Nature of Transaction	Risk Description	Control That Addresses Risk of Material Misstatement
8	Provision for Bad trade receivables	Actions of the customers such as fully utilizing the present credit limits offered by the existing lenders, contracting new loans, opting for moratorium wherever offered by the lenders etc. are not factored in the calculations of amount equal to life time ECL wherever warranted by significant increase in the credit risk	Field marketing staff are entrusted with the task of being in touch with all the major customers in their respective areas to notice any significant changes in the operations of the customer and report back to the HO. The information so received is assessed for its relevance before incorporating into the calculations of the ECL.
9		Advances paid towards purchase of regular production items or project items may not be delivered as the vendors have either closed or are in severe financial constraint to start the business, requiring an estimate of provision for write off.	Purchase department constantly follows up with the vendors and wherever there is probability of the vendor not meeting the terms of the contract it intimates legal department for initiating legal action and F&A department for provision, after exhausting all the available avenues for recovery of the advances.
10	Physical verification of inventory	The company has not conducted physical verification of inventories either on the date of the Balance sheet or at any nearby dates before or after the Balance sheet date and hence closing stocks to be incorporated in the financial reporting are unascertainable	There is a process of physical verification of raw material at the end of each month by inter departmental team at the plants, their readings are cross checked with book stock and in case of any significant differences suitable adjustment entries are being recorded. Physical verification by third party independent consultant is also being conducted at the end of financial year across all the units' in order to check the accuracy of stock levels.

S. No.	Nature of Transaction	Risk Description	Control That Addresses Risk of Material Misstatement
11	Valuation of raw materials and stores &spares	Raw materials and stores spares as appearing in the books as at the Balance sheet date are not valued at lower of cost and net realisable value.	For valuation of inventory of raw materials and stores and spares we follow lower of daily moving weighted average cost and net realisable value
12	Finished goods	The allocation of overheads to finished goods(Cement) is not based on normal levels of production as per standard costing but allocated on basis of actual production levels and accordingly the abnormal overhead costs are not charged off to profit and loss account but allocated to finished goods.	Allocation of overheads is based on the normal levels of production and accordingly excess overhead cost that could not be allocated to units produced ,due to lower volumes of production are charged to profit and loss account .For the lockdown period fixed over heads costs have not been considered for stock valuation purpose.
13	Finished goods	Finished goods are not valued at lower of cost and net realisable value.	As per company policy on inventory valuation Finished goods are being valued at lower of cost and net realisable value.
14	Recording of inventory in transit	Various items of inventory and project items that are stuck in transit due to COVID 19 lockdown are not recognised in the books.	Purchase department after discussion with vendors of the status of the dispatches of the various purchase orders and based on documentary proof intimates F&A department for incorporation the goods in transit in the books.
15	Recording of inventory	Damaged inventory of cement, if any, at the warehouses is not identified and accounted for the loss in the books. This is important due to large quantities of cement stored at warehouses.	Physical verification of inventory at godowns is being carried out at regular intervals and efforts are being made to maintain very minimal stock levels at the godowns to meet the market requirements. We have a practice of making the godown inventory nil on periodical basis to keep a check on shortages/damaged stock scenarios.

S. No.	Nature of Transaction	Risk Description	Control That Addresses Risk of Material Misstatement
16	Recording of inventory	Inventories held at the sites are not assessed for any damages and/or for obsolescence that need to be written off to profit and loss account.	Finished stock of cement at site is not maintained in packed form, it is stored in silos and as per the production and dispatch cycle keeps rotating hence there is no question of any damaged inventory of finished goods. In case of other materials being used in the production process we follow the FIFO method and proper care for handling is in place.
17	Fixed Assets valuation	Impairment calculations have not considered the adverse effects of COVID 19 or the assumptions made in this regard are not proper	Impairment valuation will be done and excess of carrying amount over the recoverable amount (being higher of fair value less cost to disposal and value in use) shall be identified and written down.
18	Fixed Assets recording	Interest on borrowed funds for execution of capital work in progress is capitalised even when the project works are suspended due to mandatory lockdown imposed by the Government in the wake of COVID 19 pandemic	In case of extra ordinary situations of prolonged stoppages in the execution of any ongoing projects we have a process to identify the period during which work was held up and charge the interest to P&L rather than capitalizing it.
19	Preparation of financial statements on going concern basis	The management has not disclosed the basis for preparation of financial statements on a going concern basis by specifying the events or conditions that adversely affect its operations by assessment of the significance of those events or conditions in meetings its obligations by specifying	As per the documented accounting policy of the company the financial statements are being prepared on going concern basis by specifying the events or conditions that adversely affect its operations by assessment of the significance of those events or conditions in meetings its obligations and by specifying

		plans for mitigating the impact of those events or conditions and by specifying underlying assumptions in the assessment of the impact and mitigation plan.	the plans for mitigating the impact of those events or conditions and by specifying the underlying assumptions in the assessment of the impact and mitigation plan.
20	IT Controls in the wake of flexible employee workings	There are no proper controls in place to prevent hacking or interrupting the data flow to & fro between office & work from home	ERP application connection is through VPN, System administrator configures VPN on user's machine and the credentials are not visible to any other person. Before configuration, entire machine will be checked by system administrator, most of the users are using their official machines
21	IT Controls in the wake of flexible employee workings	Laptops and/or desktops of the employees work from home are not properly secured	ERP application connection is through VPN, System administrator configures VPN on user's machine and the credentials are not visible to any other person. Before configuration, entire machine will be checked by system administrator, most of the users are using their official machines
22	IT Controls in the wake of flexible employee workings	Employee are not properly trained for work from home environment.	Most of the users are using their official machines. We are also educating our employees on security related items.
23	IT Controls in the wake of flexible employee workings	Employee work from home are not properly monitored in their work.	All the related logs are monitored regularly and necessary precautions are being taken.

- **Supply chain management**

The company does not foresee any challenges in managing the supply of raw materials and fuel, during post COVID-19 period since lime stone which constitutes 95% of the raw material is being sourced from captive mines and remaining items like laterite, iron ore, fly ash and gypsum are available without any hurdles. Fuel which comprises of Pet Coke / Coal is being sourced partly from Chennai Petroleum (CPCL) and also by imports from Saudi Arabia and United States of America. To meet the fuel requirements of the 18 MW CPP at Mattampally unit, domestic coal is being sourced from Singareni collieries co. Ltd.

- **Demand of its products**

Most part of the quarter was impacted by covid-19 related challenges. We did witness early signs of recovery both in terms of demand and realisations during the end of the quarter across most of our key markets. Construction work across the country was impacted following the lockdown announcement, labour unavailability problems at most of the site and supply chain disruption. However, things have gradually improved, especially post the calibrated opening up of the economy. Demand from Rural area has been relatively steady – urban demand is still a bit soft, but should pick up with time.

Existing contracts/agreements where non-fulfillment of obligations by any party will have significant impact on the company's business:

Considering the nature our business and cordial relations with our vendors, service providers and customers, we don't foresee any major challenges going forward where our business could get impacted due to non-fulfillment of obligations from either side.

Other relevant material updates:
Keeping in view the impact on its business in short/medium and long term the company has revised its business plan covering projections over a span of five years.

In cement industry, short term can be considered as 6 months to one year, medium term as 1 to 3 years and long term as 5 years. We do foresee major impact in the short term post COVID-19 pandemic, minimal impact in the medium term and no impact in the long term.