Turning Dreams into Concrete Reality

21st January, 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,

Sub: Intimation about Affirmation 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 affirmation in credit ratings from India Ratings & Research Pvt. Ltd. through their e mail dated 20th January, 2023 the details of which are as under:

Instrument Type	Rated Amount (in Crores)	Existing Rating / Rating Watch	Revised Rating / Outlook	Rating Action
Term Loan	Rs.578.30 Crore (Reduced from Rs.794.50 Crore)	IND BB+/RWN	IND BB+/Stable	Affirmed; off Rating Watch with Negative Implications
Non-Convertible Debentures	Rs.280 Crore (Reduced from Rs.305 Crore)	IND BB+/RWN	IND BB+/Stable	Affirmed; off Rating Watch with Negative Implications
Fund based Limits	Rs.185 Crore (Reduced from Rs.285 Crore)	IND BB+/RWN	IND BB+/Stable	Affirmed; off Rating Watch with Negative Implications
Non fund based limits^	Rs.140 Crore (Increased from Rs.40 Crore)	IND A4+/RWN	IND A4+	Affirmed; off Rating Watch with Negative Implications

^ INR 40 Crore interchangeable with fund based limits.

We are enclosing the report regarding affirmation on 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: 2023.01.21 18:22:47 +05'30'

Anil Agrawal
Company Secretary
Encl: As above

Login

India Ratings Affirms Sanghi Industries at 'IND BB+'/Stable; Off Rating Watch with Negative Implications

Jan 20, 2023 |

India Ratings and Research (Ind-Ra) has affirmed Sanghi Industries Limited's (SIL) Long-Term Issuer Rating at 'IND BB+' while resolving the Rating Watch with Negative Implications. The Outlook is Stable. 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 (reduced from INR7,945)	IND BB+/Stable	Affirmed; off Rating Watch with Negative Implications
Non-convertible debentures (NCDs)	INE999B07036	23 February 2021	14/15/16/18*	23 February 2027	INR2,800 (reduced from INR3,050)	IND BB+/Stable	Affirmed; off Rating Watch with Negative Implications
Fund-based limits	-	-	-	-	INR1,850 (reduced from INR2,850)	IND BB+/Stable	Affirmed; off Rating Watch with Negative Implications
Non-fund-based limits^	-	-	-	-	INR1,400 (increased from INR400)	IND A4+	Affirmed; off Rating Watch with Negative Implications

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

The affirmation and resolution of the Rating Watch with Negative Implications reflect the possible improvement in SIL's near-term liquidity and Ind-Ra's assessment of the company's credit profile following a fund infusion.

Key Rating Drivers

Liquidity Indicator - Stretched; Fund Infusion Improves Near-term Liquidity, but Significant EBITDA Growth Needed over Medium Term: 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, leading to an improvement in its liquidity position. Of the total NCD proceeds, around INR2.1 billion was used for prepaying the principal obligations of SIL's term debt, post which the company has negligible repayment obligations in FY24 (INR20 million-25 million towards vehicle and equipment loans). Out of the funds raised, SIL maintains INR0.5 billion in cash (as on 16 January 2023) while the balance has been used for reducing the working capital debt (INR1 billion) and to fund operational requirements, including a reduction of trade payables while the equity proceeds largely remain as cash and equivalents.

With the resolution of SIL's immediate liquidity challenges, Ind-Ra expects the company to be able to ramp-up its volume and profitability FY24 onwards. Also, given the negligible repayment obligations in FY24, the company is likely to be able to meet its interest obligations (1HFY23: INR0.9 billion) through internal accruals. Thereafter, the company has scheduled repayment of around INR1.7 billion in FY25 in addition to the interest expense. A significant increase in EBITDA (1HFY23: INR0.2 billion; FY22: INR1.9 billion; FY21: INR2.4 billion) will be needed for the company to be able meet both through internal accruals. 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.

SIL's average utilisation of its working capital limits of INR3.2 billion was around 95% during the 12 months ended December 2022. While the total working capital limits remain unchanged, the fund-based limits have been reduced by INR1 billion to INR1.85 billion (from INR2.8 billion) while the non-fund based limits have been increased by the same amount. SIL's cash flow from operations (post net interest expense) rose to INR3,241 million in FY22 (FY21: INR2,372 million), mainly due to a reduction in working capital owing to an increase in trade payables. With high input costs affecting profits and a likely reduction in creditor days, Ind-Ra expects the cash flow from operations to turn negative in FY23 before normalising in FY24. The free cash balance increased to around INR0.5 billion at end-December 2022 (FYE22: INR1.4 million), primarily led by the equity infusion. Ind-Ra understands from the management that the company intends to keep around INR0.3 billion of free cash in addition to the debt service reserve account of around INR0.2 billion at end-December 2022 (mid-September 2022: INR0.3 billion).

Input Cost Headwinds to Hit EBITDA in FY23, Recovery likely in FY24: SIL continued to witness a fall in profitability, with EBITDA/metric tonne (mt) declining sharply to INR163 in 1HFY23 (1HFY22: INR1,043/mt, FY22: INR821/mt, FY21: INR1,120/mt) owing to a sharp rise in power and fuel cost/mt and sub-optimal input procurement, due to the tight liquidity position. As a result, the overall EBITDA contracted to INR0.2 billion in 1HFY23 (1HFY22: INR1.1 billion). The total sale volumes (cement and clinker) grew 2% yoy to 1.03 million tonnes (mnt) in 1HFY23, while cement sale volumes grew 13% yoy. With EBITDA losses in 2QFY23 and working capital challenges for a large part of 3QFY23 affecting production, Ind-Ra expects SIL's overall EBITDA generation in FY23 to fall short of the agency's expectations in its last review despite the cost-reduction measures undertaken by the management.

However, the improvement in the liquidity position would enable the company to ramp-up its capacity utilisation in FY24 (1HFY23: 33%). This in addition to the correction in the cost structure with the optimised sourcing and a gradual softening of input costs might result in a healthy double-digit growth for the company in the year. The extent of the growth in EBITDA would be contingent on SIL's ability to regain market share and EBITDA/mt; this remains a key monitorable.

High Debt Burden keeps Leverage Elevated; Pace of Deleveraging Contingent on EBITDA Growth: SIL had 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 (net debt/EBITDA) 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. Furthermore, given the weak performance in 1HFY23, the net leverage shot up to 12.7x at end-September 2022.

While the fund infusion has improved the near-term liquidity position, the net debt increased to around INR15 billion at end-December 2022 (FY22: INR13.3 billion, 1HFY23: INR13.1 billion) as 90% of the fund infusion of INR5.5 billion was in the form of debt. Notwithstanding the likelihood of a meaningful improvement in FY24, Ind-Ra expects the net leverage to remain high, with the pace of deleveraging contingent on the growth in EBITDA.

SIL's EBITDA interest coverage (EBITDA/interest expense) fell to 0.2x in 1HFY23 (FY22: 2.3x, FY21: 3.3x) as the EBITDA plummeted and the company stopped interest capitalisation of the debt for the new unit. The interest coverage is likely to remain weak in FY23, post which it could improve in FY24, supported by higher EBITDA.

Robust Business Profile despite Limited Geographical Diversification: SIL is the third-largest cement company in Gujarat. Furthermore, 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 6.1mnt from 4.1mnt and clinker capacity to 6.6mnt from 3.3mnt. The management plans to increase its clinker exports, since the capacity has expanded to a level that is not commensurate with the growth in the grinding capacity. Post the capex completion, SIL 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 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 is 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 the markets of Rajasthan, Maharashtra and Kerala. The management expects sales in Kerala and Maharashtra, and clinker exports to improve over the medium term due to the increased capacity. However, Ind-Ra believes the company will continue to focus on Gujarat, given its established market position and freight cost advantage.

Rating Sensitivities

Positive: Growth in EBITDA, leading to a significant and sustained improvement in the financial profile and liquidity, with EBITDA interest coverage of more than 2x, on a sustained basis, could lead to a positive rating action.

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 6.1mmtpa 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 Gujarat, Rajasthan, Maharashtra and Kerala and international markets of the Middle East, Africa and the Indian sub-continent.

FINANCIAL SUMMARY

Particulars	FY22	FY21
Revenue (INR billion)	11.3	9.4
EBITDA (INR billion)	1.9	2.4
EBITDA margin (%)	17.0	25.6
EBITDA interest coverage (x)	2.4	3.6
Net leverage (x)	6.9	5.7
Source: SIL, Ind-Ra		

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	23 September 2022	15 July2022	17 March 2022	19 March 2021	5 February 2021	9 June 2020	8 August 2019

Issuer rating	Long-term	-	IND BB+/Stable	IND BB+/Rating Watch with Negative Implications	IND BBB/Negative	IND A-/Negative	IND A/Negative	IND A/Negative	IND A/Negative	IND A/Stable
NCDs	Long-term	INR2,800	IND BB+/Stable	IND BB+/Rating Watch with Negative Implications	IND BBB/Negative	IND A-/Negative	IND A/Negative	IND A/Negative	-	-
Term loans	Long-term	INR5,783	IND BB+/Stable	IND BB+/Rating Watch with Negative Implications	IND BBB/Negative	IND A-/Negative	IND A/Negative	IND A/Negative	IND A/Negative	IND A/Stable
Fund-based limits	Long-term	INR1,850	IND BB+/Stable	IND BB+/Rating Watch with Negative Implications	IND BBB/Negative	IND A-/Negative	IND A/Negative	IND A/Negative	IND A/Negative	IND A/Stable
Non-fund-based limits	Short-term	INR1,400	IND A4+	IND A4+/Rating Watch with Negative Implications	IND A3+	IND A2+	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.

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

Policy for Placing Ratings on Rating Watch