SAGAR CEMENTS LIMITED

SCL: SEC: NSE: BSE: 2024-25

13th August, 2024

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

Script Code: 502090

Symbol **SAGCEM**
Series **EQ**
ISIN **INE 229C01021**

Symbol **SAGCEM**
Series **DEBT**
ISIN **INE433R07016**

Dear Sir,

Sub: Intimation under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 read with Part A of Schedule III to SEBI (LODR) Regulations 2015, we wish to inform you that India Ratings & Research Private Limited has since placed Sagar Cements Limited's (SCL) NCDs & Bank Loans at 'IND A/Negative'.

Thanking you

Yours faithfully
For Sagar Cements Limited

J.Raja Reddy
Company Secretary
M.No:A31113

Encl: a/a

India Ratings Affirms Sagar Cement's NCDs & Bank Loans at 'IND A'/Negative

Aug 12, 2024 | Cement & Cement Products

India Ratings and Research (Ind-Ra) has taken the following rating actions on Sagar Cements Limited's (SCL) non-convertible debentures and bank facilities:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Non-convertible debentures*	-	-	-	INR230.8 (reduced from INR461.5)	IND A/Negative	Affirmed
Term loan	-	-	FY31	INR2,572.4 (reduced from INR2,936.3)	IND A/Negative	Affirmed
Fund-based working capital limit	-	-	-	INR2,220	IND A/Negative/IND A1	Affirmed
Non-fund-based working capital limit	-	-	-	INR2,630	IND A1	Affirmed
Non-fund-based working capital limit	-	-	-	INR50	IND A1	Assigned

*Details in annexure

Analytical Approach

Ind-Ra continues to fully consolidate SCL's subsidiaries - Sagar Cements (M) Private Limited (SCMPL; 'IND A'/Negative; 65% stake held by SCL) and Andhra Cements Limited (ACL; 'IND BBB+'/Negative; 90%), due to the strong operational and strategic linkages, and moderate legal linkages among them.

Detailed Rationale of the Rating Action

The affirmation reflects SCL's comfortable market position and its geographically diversified operations with a presence in three regions. SCL's performance improved yoy in FY24 with growth in sale volumes and profitability, which coupled with a working capital release led to a rise in the cash flow from operations, leading to a reduction in the net leverage. However, given the fall in realisations with the increasing competitive intensity in the industry, the improvement in EBITDA/metric tonne (mt) was marginally below Ind-Ra's expectations resulting in a lower-than-expected deleveraging. Ind-Ra expects a continued improvement in performance in FY25 with the growth in volumes leading to an increase in the EBITDA and the consequent deleveraging.

The Negative Outlook reflects the likelihood of a weaker-than-expected EBITDA in FY25 given the continued pressure on prices, which could delay SCL's balance sheet deleveraging in FY25, notwithstanding some recovery in 2HFY25.

Nonetheless, Ind-Ra takes comfort from the management's commitment to keep the net debt around current levels (FY24: INR12.5 billion) and structure its capex plans according to cash flow generation to ensure a reduction in the net leverage below 3.5x latest by FY26. Ind-Ra will continue to monitor the recovery in EBITDA as well as the capex and liquidity position.

List of Key Rating Drivers

Strengths

- Benign input costs and volume ramp-up to aid gradual improvement in EBITDA 2HFY25 onwards
- Comfortable market position
- Geographically diversified with presence in three regions
- Adequate raw material linkages and captive power

Weaknesses

- Recovery in EBITDA key to deleveraging by FY26
- Net debt remains elevated, although unlikely to increase as capex structuring to be linked to cash flows
- Fluctuations in input costs; cyclical demand

Detailed Description of Key Rating Drivers

Benign Input Costs and Volume Ramp-up to Aid Gradual Improvement in EBITDA 2HFY25 Onwards: SCL's EBITDA/mt recovered to INR446 in FY24 (FY23: INR318; FY22: INR765), owing to the moderation in fuel prices from the elevated levels of FY23, along with a 14% yoy growth in sales volume to 5.51 million tonnes (mnt). The higher-than-industry growth in volumes was driven by a combination of ramp-up of the Jajpur and Jeerabad plants, and modest incremental volumes from the newly acquired unit at ACL. Although there has been a significant correction in fuel costs in the past 15-18 months, the recovery in SCL's EBITDA/mt was lower than expected due to a decline in industry-wide realisations. Further, SCL's operations were hit by a longer-than-regular maintenance shutdown undertaken for Mattampally line II clinker in 1QFY24, along with EBITDA losses in ACL during the year owing to the pending ramp-up amidst restart costs leading to losses in the entity.

Sale volumes grew 9% yoy to 1.28mnt in 1QFY25 which was affected by the national and state elections. Ind-Ra expects growth momentum to pick up in 2HFY25 on the back of demand from infrastructure projects as well as an improvement in demand from rural housing. However, Ind-Ra believes SCL's recovery in profitability in FY25 would be weaker than previously envisaged owing to the weak realisation amid the rising competitive intensity. Ind-Ra expects profitability to improve further in FY26 with volume ramp-up and efficiency capex at ACL, coupled with an increase in the share of green power leading to cost savings. ACL recorded sales volumes of around 0.52mt in FY24 and EBITDA losses of INR32 million. The gradual ramp up of output is likely to improve operational efficiencies and fixed cost absorption, resulting in better operational EBITDA at the consolidated level.

Comfortable Market Position: SCL's capacity has increased over 80% to 10.5mnt over FY21-FY24 through a mix of organic and inorganic routes. After completing the greenfield projects in Odisha and Madhya Pradesh in 2HFY22, SCL acquired ACL in March 2023. The increase in capacity has strengthened SCL's business profile by enhancing its market position and geographical presence. The management plans to increase the capacity to 11.25mt over the next couple of years contingent on the market conditions and its cash flows.

Geographically Diversified with Presence in Three Regions: From being primarily a southern India-based player till FY21, the company has a manufacturing presence in the central as well as the eastern regions, which has a high growth potential. SCL's concentration towards the Southern region has been reducing (FY24: 70%, FY23: 75%). In FY24, SCL's cement sales originated from southern states of Andhra Pradesh (29%), Telangana (24%), Tamil Nadu (10%) and Karnataka (7%). The management expects Telangana (50% of sales mix), Andhra Pradesh (30%) and Tamil Nadu (20%) to be the key end-use markets for ACL. Ind-Ra believes the development of Andhra Pradesh's new capital Amravati, along with additional allocation towards capital investment for essential infrastructure such as water, power, railways and roads in the budget of FY25 is likely to support cement demand in the Southern region.

Adequate Raw Material Linkages and Captive Power: SCL has limestone reserves of around 944mt at a consolidated level post the acquisition of ACL, which is sufficient to cater to the medium-to-long term limestone requirement of the existing plants. Additionally, SCL is building feeders for alternative fuel consumption across all the plants which would allow it to choose the type of fuel basis the availability and cost. Apart from this, SCL at a consolidated level has 73MW captive thermal power generation capacity, a 14.1MW waste heat recovery plant and around 9.86MW of solar and hydro power plant, sufficient to cover the power requirements of the entities, inclusive of the incremental capacities coming in. The company has also been able to reduce its lead distance by around 38% over FY17-FY24 (FY24: 4%).

Recovery in EBITDA Key to Deleveraging by FY26: After improving to 1.5x in FY21 (FY20: 2.7x), SCL's net leverage (net debt/EBITDA) rose to 4.9x in FY22 and further to 8.5x in FY23, mainly due to the investment of INR9.2 billion towards the acquisition of ACL (acquisition value, restart capex and working capital, other costs) and completion of the Jajpur and Jeerabad plants, exacerbated by a fall in EBITDA (FY23: INR1,532 million, FY22: INR2,758 million). While the net leverage improved to 5.2x in FY24, it was higher than Ind-Ra's expectations given the lower EBITDA. With realisations remaining subdued and the planned capex towards efficiency improvement and clinker capacity addition at ACL, the deleveraging process has been delayed by nine-to-12 months. The net leverage is likely to reduce to 3.5x only in FY26 compared to Ind-Ra's earlier expectations of FY25, on the back of a ramp-up in EBITDA. SCL's gross interest coverage (EBITDA/gross interest expense) recovered to 1.33x in FY24 (FY23: 0.77x, FY22: 2.98x) and is likely to improve further over the medium term as the EBITDA and utilisations levels improve for the recently expanded capacities, leading to an overall improvement in the financial profile of the entity.

Net Debt Remains Elevated Although Unlikely to Increase as Capex Structuring to be Linked to Cash Flows: The management has planned a second phase of capex at ACL, with a cost of INR4,700 million which entails reduction in power consumption and efficiency improvement coupled with an increase in the clinker capacity to 2.3mnt from 1.85mnt and the cement capacity to 3mnt from 2.25mnt.The said capex will be funded by a mix of term debt (INR3,000 million) and the balance would be funded by fresh equity proceeds generated by way of reduction in the promoter holding in ACL to 75% from the current 90%, in line with the listing requirements to be done before March 2026. Additionally, SCL has various green power capacity expansions planned across various plants totalling INR8.5 billion-9 billion over FY25-FY27 including maintenance capex. It has already embarked on the first phase of the ACL capex (cost: INR2.55 billion) consisting of efficiency and clinker capacity expansion while the second phase of cement grinding capacity increase is planned over FY25-FY26. The management has articulated that despite the planned capex, the net debt will remain at the current levels of around INR13 billion (FY24: INR12.5 billion). While the management expects to generate sufficient EBITDA and equity infusion over FY25-FY26, the timing of the capex would be contingent on these and a lower-than-expected cash flow would lead to the capex being structured accordingly. Ind-Ra would continue to monitor the progress of the capex in conjunction with the EBITDA and cash flow generation and assess its impact on the credit profile.

Fluctuations in Input Costs; Cyclical Demand: Given the competitive business, any sharp increase in the key input prices, including pet coke, coal and diesel, without a corresponding increase in cement prices, could affect the profitability margins. Also, SCL remains exposed to the inherent cyclicality in the cement industry, which is dependent on the country's infrastructure and housing demand.

Liquidity

Adequate: SCL had cash and cash equivalents of INR1,637 million at end-June 2024 at the consolidated level (end-March 2024: INR2,621 million) including INR400 million in the form of margin money towards non-fund-based limits). Cash flow from operations turned positive to INR1,833 million in FY24 (FY23: negative INR584 million, FY22: INR40 million) led by the combination of the improvement in EBITDA and the release of working capital. Ind-Ra expects the cash flow from operations to remain comfortable in FY25, although the working capital could witness some normalisation.

On a consolidated basis, the average use of the fund-based and non-fund-based limits was around 84% and 85%, respectively, over the 12 months ended June 2024, indicating moderate liquidity cushion. The company had a cushion of around INR790 million over the drawing power at end-March 2024 to meet any increase in the working capital requirements while the sanctioned limits were higher. At the standalone level, SCL's utilisation of the fund-based and non-fund-based limits was around 85% and 90%, respectively, over the same period. SCMPL has been sanctioned working capital limits of INR1,100 million (fund-based limits: INR350 million, with utilisation of 78%; non-fund-based limits: INR750 million, with utilisation of around 71%). Furthermore, it has received working capital limits in ACL (82% utilisation of fund-based limits of INR35 million and 80% utilisation of non-fund-based limits of INR60 million over the last 12 months ending June 2024).

Ind-Ra believes the free cash flow generation in the near term will remain contingent on the capex plans. With an estimated capex of around INR8.7 billion over FY25-FY27, the free cash flow is likely to remain negative, and turn positive in FY28 with an increase in the cash flow from operations and a reduction in capex spends. The company has repayment obligations of around INR1,560 million and INR1,420 million over FY25 and FY26 respectively, which would be met through the existing free cash coupled with EBITDA generation.

Rating Sensitivities

Positive: A significant improvement in the operating profitability, leading to a substantial improvement in the credit metrics with the net leverage reducing below 3.5x on a sustained basis could result in an Outlook revision to Stable.

Negative: The following developments, individually or collectively, could lead to a negative rating action:
- the inability to improve operating profitability,
- delays in ramp-up at ACL,
- any weakening of liquidity and/or higher-than-expected debt levels, leading to the net leverage exceeding 3.5x, on a sustained and consolidated basis.

Any Other Information

Standalone Performance: At the standalone level, SCL reported revenue of INR19,076 million in FY24 (FY23: INR19,638 million) and EBITDA of INR1,827 million (INR1,485 million). SCL had total debt of INR4,780 million at FYE24 (FYE23: INR5,911 million). The net leverage was 1.76x in FY24 (FY23: 3.1x) and interest coverage was 2.43x (0.93x).

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 SCL, 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.

About the Company

Incorporated in 1981, SCL has a consolidated cement manufacturing capacity of 10.5mnt and clinker capacity of 6.6mnt (post ACL acquisition). SCL has a strong presence in southern India with recent expansions in central and eastern India with six active manufacturing facilities.

Key Financials Indicators

Particulars (Consolidated)	FY24	FY23
Revenue (INR billion)	25.05	22.30
EBITDA (INR billion)	2.46	1.53
EBITDA margins (%)	9.8	6.9
Gross interest coverage (x)	1.33	0.76
Net leverage (x)	5.18	8.47
Source: SCL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Rating/ Outlook	Historical Rating/Rating Watch/Outlook					
				16 October 2023	31 March 2023	22 December 2022	24 March 2022	31 December 2021	10 June 2021
Issuer rating	Long-term	-	-	WD	IND A/Stable	IND A/Rating Watch with Developing Implications	IND A/Rating Watch with Developing Implications	IND A/Rating Watch with Developing Implications	IND A/Positive
Fund-based working capital limit	Long-term/Short-term	INR2,220	IND A/Negative/ IND A1	IND A/Negative/ IND A1	IND A/Stable/ IND A1	IND A/Rating Watch with Developing Implications /IND A1/Rating Watch with Developing Implications	IND A/ Rating Watch with Developing Implications/IND A1/Rating Watch with Developing Implications	IND A/ Rating Watch with Developing Implications /IND A1/Rating Watch with Developing Implications	IND A/Positive/IND A1
Non-fund-based working capital limit	Short-term	INR2,680	IND A1	IND A1	IND A1	IND A1/Rating Watch with Developing Implications	IND A1/Rating Watch with Developing Implications	IND A1/Rating Watch with Developing Implications	IND A1
Term loan	Long-term	INR2,572.4	IND A/Negative	IND A/Negative	IND A/Stable	IND A/Rating Watch with Developing Implications	IND A/Rating Watch with Developing Implications	IND A/Rating Watch with Developing Implications	IND A/Positive
NCDs	Long-term	INR230.8	IND A/Negative	IND A/Negative	IND A/Stable	IND A/Rating Watch with Developing Implications	IND A/Rating Watch with Developing Implications	IND A/Rating Watch with Developing Implications	-

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Non-convertible debentures	Low
Non-fund-based working capital limit	Low
Fund-based working capital limit	Low
Term loan	Low

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

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCDs	INE433R07016	23 March 2016	Reset rate*	28 May 2025	INR230.8	IND A/Negative

*Current interest rate of 11.6%

Source: NSDL, Company