SANGHI CEMENT
Turning Dreams into Concrete Reality

16th July, 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 15th July, 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	IND A-/Negative	IND BBB/Negative	Downgraded
Non-Convertible Debentures	Rs.305 Crore	IND A-/Negative	IND BBB/Negative	Downgraded
Fund based Limits	Rs 285 Crore	IND A-/Negative	IND BBB/Negative	Downgraded
Non fund based limits^	Rs 40 Crore	IND A2+	IND A3+	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
Registered Office : P.O. Sanghinagar, Hayatnagar Mandal, R R District, Telangana - 501511.
Tel. : 08415 - 242240 E-mail : companysecretary@sanghicement.com
Website : www.sanghicement.com

IndiaRatings & Research
A Fitch Group Company

India Ratings Downgrades Sanghi Industries and its NCDs to 'IND BBB'/Negative

Jul 15, 2022 | Cement

India Ratings and Research (Ind-Ra) has downgraded Sanghi Industries Limited's (SIL) Long-Term Issuer Rating to 'IND BBB' 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	IND BBB/Negative	Downgraded
Non-convertible debentures (NCDs)	INE999B07036	23 February 2021	14/15/16*	23 February 2027	INR3,050	IND BBB/Negative	Downgraded
Fund-based limits	-	-	-	-	INR2,850	IND BBB/Negative	Downgraded
Non-fund-based limits^	-	-	-	-	INR400	IND A3+	Downgraded

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

The downgrade and the Negative Outlook reflect the delays in the management's liquidity infusion plan and the challenges around cash flow generation starting mid-FY23, coinciding with the seasonally weak monsoon quarters, which could get exacerbated in the context of input cost inflation. Timely infusion of funds by the management in 2QFY23 and a ramp-up of volumes and EBITDA after a weaker-than-expected performance in FY22 will remain a key monitorable.

Key Rating Drivers

Cost Headwinds to Keep Profitability under Pressure; Volume Ramp-up Key: SIL's EBITDA/mt fell sharply to INR607 in 4QFY22 (9MFY22: INR916) from INR1,253 in 4QFY21 due to higher power and fuel costs, resulting in a decline in EBITDA/mt for FY22 to INR821 (FY21: INR1,120), lower than Ind-Ra's expectations. Despite a moderation from the record level of USD400/mt, coal prices continue to average significantly higher than the FY22 levels. The management has informed Ind-Ra that the company has initiated cost reduction measures by substituting coal with the high-quality lignite sourced from Gujarat Mineral Development Corporation Ltd and waste heat recovery system to about half of the requirements, which is likely to partially mitigate the impact of high power and fuel prices. However, with industry capacity utilisations remaining range bound in FY23, Ind-Ra expects an increase in cement prices to be restricted to a mid-single digit, falling short of the increase in costs due to elevated fuel prices, pressuring the EBITDA/mt.

SIL had completed the capex towards its 3.3mtpa clinker and 2mtpa grinding unit in Kutch in February 2021, but the new unit was under stabilisation process until 3QFY22 and the limited production had to be blended with production from the existing plant. With the stabilisation process and a slow recovery in demand in the western region post COVID-19, SIL's total sale volumes stood at 2.3mnt during FY22, up 9% yoy but below Ind-Ra's earlier expectation. (annual sales volumes of 2.4-2.9mnt over FY17-FY19).

Ind-Ra understands from the management that the new plant has been stabilised during 4QFY22 and is thus likely to generate healthy volumes from 1QFY23. The company's sales volumes increased by around 20% yoy during April and May 2022 and 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. Given the pressure from high power and fuel costs, the ramp-up in volumes and improved operating efficiencies are key to achieve 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 now exacerbated by the cost headwinds.

Liquidity Indicator – Stretched: SIL's cash flow from operations (post net interest expense) rose to INR3,241 million (FY21: INR2,372 million) in FY22, mainly due to a reduction in working capital as trade payables increased. The higher CFO and the reduced working capital resulted in SIL's free cash flow (FCF) turning positive to INR306 million in FY22 (FY21: negative INR1,309 million). Ind-Ra expects the FCF to improve over the medium term in the absence of any major capex. However, 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 given the impact of cost headwinds on profitability. Furthermore, SIL's average utilisation of its fund-based working capital limits was around 95% during the 12 months ended May 2022 with unused lines of around INR250 million-INR300 million over the past couple of months, along with low free cash balances of INR1.4 million end-March 2022.

Hence, the management now plans to infuse significant liquidity by 2QFY23, which was earlier planned in 1QFY23, and is working on various measures to do complete the same by August 2022, 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.

Delay in Deleveraging: After improving to 5.7x in FY21, the net leverage deteriorated to 6.95x in FY22, due to a decline in EBITDA to INR1.9 billion from INR2.4 billion. 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 and expense capitalisation during a trial run of INR934 million during FY22), funded by a debt of INR6.9 billion and the balance by internal accruals.

In the absence of liquidity infusion, notwithstanding an improvement in FY23, Ind-Ra expects the net leverage to remain above 5x. The fructification of liquidity plans could improve the net leverage depending on the debt-equity mix will be a key rating monitorable. SIL's EBITDA interest coverage had deteriorated to 2.3x in FY22 (FY21: 3.3x) due to the decline in EBITDA. 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% compared to other term loans cost at 10%-11%.

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 Gujarat Mineral Development Corp'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 the state constitutes 80%-85% of the company's total cement sales. The management expects the sales from other markets such as Kerala and Maharashtra and the export of clinker to improve over the medium term due to the 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: Further delays in liquidity infusion plans resulting in the company's inability to improve its liquidity position by 1HFY23, and a lower-than-expected improvement in the profitability leading to the net leverage sustaining above 4x beyond FY23 could lead to a negative rating action.

Positive: A significant improvement in the liquidity profile, coupled with a steady ramp-up of the volumes, leading to an improvement in the EBITDA and the net leverage below 4x 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, 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 Indian markets of 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/Outlook				
	Rating Type	Rated Limits (million)	Rating	17 March 2022	19 March 2021	5 February 2021	9 June 2020	8 August 2019
Issuer rating	Long-term	-	IND BBB/Negative	IND A-/Negative	IND A/Negative	IND A/Negative	IND A/Negative	IND A/Stable
NCDs	Long-term	INR3,050	IND BBB/Negative	IND A-/Negative	IND A/Negative	IND A/Negative	-	-
Term loans	Long-term	INR7,945	IND BBB/Negative	IND A-/Negative	IND A/Negative	IND A/Negative	IND A/Negative	IND A/Stable
Fund-based limits	Long-term	INR2,850	IND BBB/Negative	IND A-/Negative	IND A/Negative	IND A/Negative	IND A/Negative	IND A/Stable
Non-fund-based limits	Short-term	INR400	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.

Contact

Primary Analyst
Khushbu Lakhotia
Associate Director
India Ratings and Research Pvt Ltd
Room no - 1201, 12th Floor, OM Towers, 32 Chowringhee Road, Kolkata-700071, India
+91 33 40302508
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Aravind B
Senior Analyst
+91 44 43401748

Chairperson
Prashant Tarwadi
Director
+91 22 40001772

Media Relation
Ankur Dahiya
Senior Manager – Corporate Communication
+91 22 40356121