



SAGAR CEMENTS LIMITED

Ref:SCL:SEC:2019-20

28th August 2019

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

The Secretary
Bombay Stock Exchange Limited
P J Towers
Dalal Street
Mumbai – 400 001

Symbol: SAGCEM
Series: EQ

Scrip Code: 502090

Dear Sirs,

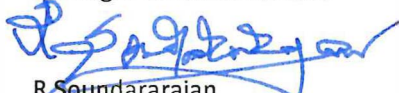
Sub: Intimation under Regulation 30 of SEBI (LODR) Regulations 2015

...

Pursuant to Regulation 30 read with Part A of Schedule III to SEBI (LODR) Regulations 2015, we are forwarding herewith a copy of the communication received from India Ratings and Research Private Limited affirming credit rating for our bank facilities, as 'IND A-', Outlook is Stable.

Thanking you

Yours faithfully
For Sagar Cements Limited


R. Soundararajan
Company Secretary

Encl: a.a.



Registered Office : Plot No. 111, Road No. 10, Jubilee Hills, Hyderabad - 500 033

Phone : +91-40-23351571, 23356572 Fax : +91-40-23356573 info@sagarcements.in www.sagarcements.in

CIN : L26942TG1981PLC002887

India Ratings Affirms Sagar Cements at 'IND A-/Stable'

23

AUG 2019

By **Anilkumar Maheshwari**

India Ratings and Research (Ind-Ra) has affirmed Sagar Cements Limited's (SCL) Long-Term Issuer Rating at 'IND A-'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital limit*	-	-	-	INR1,320	IND A-/Stable /IND A2+	Affirmed
Non-fund-based working capital limit	-	-	-	INR1,000 (increased from INR250)	IND A2+	Affirmed
Term loan	-	-	March 2022-March 2026	INR1,715.8 (reduced from INR1,985.4)	IND A-/Stable	Affirmed

*The working capital demand loan has been re-classified as fund-based working capital limits.

Analytical Approach: Ind-Ra has taken consolidated view on SCL and its subsidiaries - Sagar Cements (R) Limited (SCL holds 100% stake), Satguru Cement Pvt Ltd (65%) and Jajpur Cement Pvt Ltd (100%) - due to the strong operating and strategic linkages and moderate legal linkages between the entities.

KEY RATING DRIVERS

Company Undertaking Capacity Expansion: SCL, which acquired Satguru Cement Private Limited in May 2019, is setting up an integrated 1 million tonne per annum (MTPA) cement plant with waste heat recovery systems (WHRs) at Dhar, Madhya Pradesh, at an estimated cost of INR4,250 million. The capex would be funded in a debt to equity ratio of 1.83:1. Also, to cater to the eastern markets, SCL has acquired Jajpur Cements Private Limited is setting up a 1.5MTPA grinding unit at Jaipur (Odisha), at an estimated cost of INR3,080 million, which would be funded in a debt to equity ratio of 1.85:1. These projects, which would increase SCL's overall cement capacity to 8.25MTPA from 5.75MTPA, are scheduled to be completed by 31 March 2021. In addition, the company has commissioned the 18MW thermal power plant at Mattampally, Telangana, in August, 2019; with this, the total installed power generating capacity of SCL has reached 61.35MW.

Improved Operating Performance: The consolidated income from operations increased by 17.3% yoy to INR12,176 million in FY19 due to an increase in the volumes sold (FY19: 3.3 million tonnes; FY18: 2.7 million tonnes). However, EBITDA per tonne declined to INR437 in FY19 (FY18: INR550) due to decrease in realisations and increase in raw material prices. The EBITDA margins declined to 12.3% in FY19 (FY18: 14.6%). 4QFY19 and 1QFY20 were better quarters for all cement manufacturers, especially for those operating in the southern region, which had seen the steepest price correction in cement prices during February-May 2019. The EBITDA/tonne stood at INR959 in 1QFY20 (4QFY19: INR656; 3QFY19: INR327), supported by the cost-optimisation measures taken by the company with regards to setting up WHRS and reduction in lead distance. During FY20, Ind-Ra believes the EBITDA per tonne would improve from FY19 levels.

Moderate Credit Metrics: SCL's credit metrics deteriorated in FY19 due to the decline in EBITDA to INR1,494 million (FY18: INR 1,513 million) and increase in debt to INR5,186 million (FY18: INR4,790 million). The consolidated EBITDA interest coverage decreased to 2.36x in FY19 (FY18: 2.60x) and net leverage (net debt/EBITDA) increased to 3.35x (2.89x). With the ongoing capex plans, Ind-Ra expects the net leverage to deteriorate further, though it would remain below 4.0x; the interest coverage ratio is likely to be maintained.

Adequate Liquidity: SCL's average use of the fund-based and non-fund-based limits was 90% and 83%, respectively, for the 12 months ended July 2019. The consolidated cash flow from operations remained positive during FY14-FY19 due to a moderate working capital cycle and strong EBITDA generation; though it declined to INR837 million in FY19 from INR863 million in FY18 owing to decline in EBITDA and increase in interest costs due to a rise in debt levels. However, free cash flow was negative from FY17-FY19 due to the capex incurred for a grinding unit and a captive power thermal plant. The free cashflow would continue to be negative for FY20 and FY21, considering the capex plans of Satguru and Jajpur. The overall liquidity profile is adequate, with structured repayments for the projects and positive cash flow from operations.

Geographically Diversified Player in South India: SCL has a presence in Andhra Pradesh, Telangana, Tamil Nadu, Kerala, Maharashtra, Chhattisgarh and Karnataka, with Sagar being a renowned brand in southern India. The company also has a presence in Odisha. With the capex plans, the company plans to cater

to the eastern and central markets as well.

Industry Risks: SCL faces the risks of volatile cement prices, given the oversupply situation in southern India and the likely capacity additions in this region during FY20-FY21. The cement industry faces demand risk because of the nature of its end-user industry. Amongst the sub-sectors, infrastructure and housing (individual as well as urban housing) account for almost 85% of cement demand; commercial and industrial demand constitutes the balance.

Standalone Profile: The revenue grew by over 16% yoy to INR9,020 million in FY19 due to an increase in the volumes sold (FY19: 2.4 million tonnes; FY18: 2 million tonnes). However, EBITDA margin declined to 11.0% in FY19 (FY18: 15.5%) on account of decrease in sales realisations and increase in input costs.

During FY19, SCL's credit metrics deteriorated due to a decline in EBITDA to INR993 million (FY18: INR1,205 million) and an increase in debt levels to INR2,838 million (INR2,615 million). The net leverage (adjusted net debt/operating EBITDA) increased to 2.7x (FY18: 1.8x) and interest coverage (operating EBITDA/gross interest expense) decreased to 3.0x (4.1x).

RATING SENSITIVITIES

Positive: A steady increase in volumes along with an improvement in the operating profitability, leading to an improvement in the net leverage below 2.5x, on a sustained basis could be positive for the ratings.

Negative: A negative rating action could result from the following developments that could, individually or collectively, result in the net leverage exceeding 4x on a sustained basis:

- Cost overruns or delays in the cement projects, i.e. Satguru Cements Private Limited and Jajpur Cement Private Limited and/or higher-than-expected debt-funded capital expenditure, and
- Deterioration in profitability due to inability to increase volumes and/or improve margins.

COMPANY PROFILE

Incorporated in 1981 and based in south India, SCL has a current cement manufacturing capacity of 5.75 MTPA and clinker capacity of 3.80 MTPA.

Consolidated Financials of SCL

Particulars	FY19	FY18
Income from operations (INR million)	12,176	10,381
Operating EBITDA (INR million)	1,494	1,513
Operating EBITDA Margin (%)	12.3	14.6
Interest expense (INR million)	634	593
Interest coverage (x)	2.4	2.6
Net leverage (x)	3.4	2.9
Source: Ind-Ra, SCL		

Standalone financials of SCL

Particulars	FY19	FY18
Income from operations (INR million)	9,020	7,760
Operating EBITDA (INR million)	993	1,205
Operating EBITDA Margin (%)	11.0	15.5
Interest expense (INR million)	332	297
Interest coverage (x)	3.0	4.1
Net leverage (x)	2.7	1.8
Source: Ind-Ra, SCL		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook	
	Rating Type	Rated Limits (million)	Rating	23 November 2018	25 May 2017
Issuer rating	Long-term	-	IND A-/Stable	IND A-/Stable	IND A-/Stable
Fund-based working capital limits	Long-term/ short-term	INR1,320	IND A-/Stable/IND A2+	IND A-/Stable/IND A2+	IND A-/Stable/IND A2+
Non-fund-based working capital limits	Short-term	INR1,000	IND A2+	IND A2+	IND A2+
Term loan	Long-term	INR1,715.8	IND A-/Stable	IND A-/Stable	IND A-/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

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

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.

ABOUT INDIA RATINGS AND RESEARCH

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

ALL CREDIT RATINGS ASSIGNED BY INDIARATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.INDIARATINGS.CO.IN/RATING-DEFINITIONS](https://www.indiaratings.co.in/rating-definitions). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE WWW.INDIARATINGS.CO.IN. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. INDIARATINGS' CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Applicable Criteria

[Corporate Rating Methodology](#)

Analyst Names

[Primary Analyst](#)

Anilkumar Maheshwari

Senior Analyst

Secondary Analyst

Shochis Natrajan

Analyst

+91 22 40001788

Committee Chairperson

Prashant Tarwadi

Director

+91 22 40001772

Media Relation

Namita Sharma

Manager – Corporate Communication

+91 22 40356121 >
