



SAGAR CEMENTS LIMITED

Ref:SCL:SEC:2016-17

28th October 2016

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,

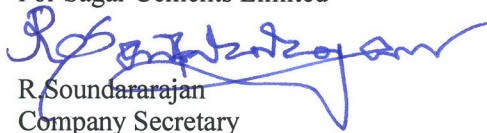
Sub: Intimation under Regulation 30 of SEBI (LODR) Regulations 2015

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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 CARE Ratings, revising credit rating for our bank facilities from CARE BBB (Minus) to CARE BBB.

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.

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CIN : L26942TG1981PLC002887

CARE/HRO/RR/2016-17/1183

Mr. K Prasad
Chief Financial Officer,
Sagar Cements Limited,
Plot No: 111, Road No: 10,
Jubilee Hills,
Hyderabad - 500033.

October 7, 2016

Confidential

Dear Sir,

Credit rating for bank facilities

Please refer to our letter dated September 30, 2016 on the above subject.

1. The rationale for the rating is attached as an Annexure - I.
2. A write-up (brief rationale) on the above ratings is proposed to be issued to the press shortly. A draft of this is enclosed for your perusal as **Annexure - II**.
3. We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by October 8, 2016 we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,
Yours faithfully,



[Vidhyasagar L]
Assistant General Manager

Encl: As above

Annexure - I
Rating Rationale
Sagar Cements Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	227.55 (reduced from 235.56)	CARE BBB (Triple B)	Revised from CARE BBB- (Triple B Minus)
Short-term Bank Facilities	25	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Facilities	252.55 (Rupees Two Hundred Fifty Two crore and Fifty Five lakh only)		

Rating Rationale

The ratings assigned to the bank facilities of Sagar Cements Limited (SCL) is based on the consolidated view of SCL and its wholly-owned subsidiary BMM Cements Limited (BMM).

The revision in the ratings of SCL factors in the satisfactory financial and operational performance of SCL (Consolidated) during FY16 (refers to the period April 01 to March 31) with comfortable capital structure post acquisition of BMM, increase in total operating income and improvement in PBILDT margin of SCL (standalone) and improved operational performance of BMM post acquisition during FY16 resulting in significant increase in income and PBILDT, albeit losses. The ratings also factors in BMM obtaining mining lease from Govt. of Andhra Pradesh for a period of 20 years thus ensuring access to limestone reserves and recent commencement of commercial operations of the railway siding project of SCL thus optimizing freight costs.

The rating continues to factor in the experienced promoters and management team, long track record of operations, SCL's long-term mining agreement for lime stone, established sales force and distribution channel. The ratings are, however, constrained by losses (consolidated) incurred during Q1FY17 on account of higher interest costs and ongoing debt-funded capex and proposed debt-funded acquisition of the grinding unit. On the consolidated level, ability of the company to

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

improve the scale of operations, sustain profitability margins and to rationalize debt are the key rating sensitivities.

Background

SCL incorporated on January 15, 1981, and started operations from January 1985 with an installed capacity of 66,000 tons per annum (TPA) of cement and 66,000 TPA of clinker capacity. The manufacturing facilities are located in Nalgonda, Andhra Pradesh. SCL manufactures various varieties of cement like Ordinary Portland Cement (OPC) of 53 grade, 43 grade, Portland Pozzalona Cement (PPC) and Sulphate Resistant Cement (SRC). Over the years, SCL has increased its capacity and currently on a consolidated level the company has 4 Million Metric Tons Per Annum (MMTPA) of cement manufacturing capacity and 3.25 MMTPA of clinker capacity.

In FY11, SCL invested Rs.86 crore in Vicat Sagar Cement Private Limited (VSCL), a Joint Venture (JV) between SCL (47% holding) and remaining with Vicat S.A (France), Flagship Company of Vicat Group of France. During FY15, SCL exited from the JV for a total consideration of Rs.435 crore and used the proceeds to fund the acquisition of BMM which has 1 MTPA cement plant with captive power plant of 25 MW with its manufacturing unit located in Ananthapur, Andhra Pradesh, for a total enterprise value of Rs.540 crore. The acquisition of BMM was completed in August 2015 as against envisaged completion by April 01, 2015.

Credit Risk Assessment

Experienced promoters with long track record

The Chairman, Mr O Swaminatha Reddy, is a Chartered Accountant by qualification, with over five decades of experience in the cement industry. SCL is promoted by Mr S Veera Reddy Managing Director, who is a first generation entrepreneur with over four decades of experience in the Cement Industry. He is ably supported by his two sons; Mr S Anand Reddy, Joint Managing Director and Mr S Sreekanth Reddy, Executive Director. Mr S Anand Reddy has done M.B.B.S, and is member of the SCL Board since 1991. Mr S Sreekanth Reddy did his Bachelor of Engineering and Post Graduate Diploma in Cement Technology. He is associated with the group since 2003 as technical director and later as Executive Director. The company further derives strength from other directors who are from diverse fields.



Satisfactory operational and financial performance during FY16, albeit loss incurred during Q1FY17

Operating income on a consolidated basis stood at Rs.757.66 crore with PAT of Rs.46.10 crore in FY16. The PBILDT and PAT margins also remained healthy at 16.93% and 6.08%, respectively, on account of increase in scale of operations despite increase in operating costs and higher interest and depreciation costs. Operating income on a standalone level grew significantly by 15.72% from Rs.561.81 crore in FY15 to Rs.650.14 crore in FY16 with increase in net realizations during FY16. Although there has been marginal decline in volumes from 1.55 MTPA in FY15 to 1.52 MTPA in FY16, net realizations have increased from Rs.3,713/ton in FY15 to Rs.3,965/ton (6.78% growth in net realizations) in FY16. Capacity utilization of SCL (standalone) remained at 56% in FY16 as against 57% in FY15. Overall gearing on a standalone basis improved from 0.47x as on March 31, 2015, to 0.35x as on March 31, 2016, on account of plough back of profits to net worth.

Furthermore, during Q1FY17, SCL achieved a total operating income of Rs.197.43 crore at consolidated level with increase in sales volume from SCL and BMM despite decline in net realizations y-o-y basis. The company achieved PBILDT of Rs.25.98 crore, however, at the PAT level the company has incurred loss of Rs.0.26 crore mainly due to accrued interest costs of BMM on the unsecured loans from SCL. However, on a standalone level, the company has achieved PAT of Rs.4.58 crore on a total operating income of Rs.136.40 crore in Q1FY17 as compared to PAT of Rs.22.80 crore on a total operating income of Rs.184.98 crore in Q1FY16.

Comfortable capital structure post acquisition of BMM:

Despite the debt-funded capex for the railway sliding project and acquisition of BMM during FY16, overall gearing remains comfortable at 0.91x as on March 31, 2016, on a consolidated basis. Interest coverage ratio also remained comfortable and stood at 3.20x as on March 31, 2016. Overall gearing on a standalone basis improved from 0.47x as on March 31, 2015 to 0.35x as on March 31, 2016, on account of plough back of profits to net worth.

Commencement of operations for railway siding project:

The railway sliding project has been completed with total project cost of Rs.91.64 crore funded through term loans from banks of Rs.65 crore and internal accruals of Rs.26.64 crore. The

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commercial operation has commenced from March 31, 2016. With railway line in-place, SCL can reach new markets at low freight costs and transport coal at lower freight costs. This would help SCL to optimize freight cost, improve connectivity for longer distance market.

Improved operational performance of BMM post acquisition by SCL during FY16:

BMM's production for last three years was on lower side due to non-availability of lime stone reserves. BMM has been allocated surface mining rights for lime stone mine near Gudipadu Village, Andhra Pradesh, which has an estimated surface deposits of 155 million tons. However, due to pending mining license from the government, BMM could not source limestone from the allocated mine and procured lime stone from traders which led to low capacity utilization for the three years period ending March 31, 2015. BMM incurred losses during the three years and has been supported by promoters to fund the losses and meet the debt obligations. BMM in FY16 produced 446,904 MT of cement (44.69% of the total installed capacity) as against 158,194 MT of cement (15.82% of the total installed capacity) produced in FY15 post take over by SCL. Post receipt of mining lease in FY16, the company's uninterrupted access to quality limestone reserves has also contributed to the improvement in the operational performance. BMM is selling cement under Sagar Brand for which the company is paying royalty to SCL. Currently, BMM has Power Purchase Agreement with Telangana State Power Coordination Committee for sale of 6.67mw at 4.65/kwh while 10 MW will be provided to SCL for captive consumption.

Strong promoter group and long track record of operations of SCL

SCL belongs to Hyderabad-based Sagar Group which is into diversified business segments like cement manufacturing, hydel and wind-based power plant of 9.95 MW through Sagar Power Limited (SPL), manufacturer of fabric and woven sack for cement industry through Panchavathi Polyfibers Limited. Sagar Cements Limited (SCL) has about three decades of track record and over the years, SCL has increased the capacity from 66,000 TPA of both clinker and cement capacity to 3 MMTPA of cement manufacturing and 2.4 MTPA of clinker capacity. From August 2015, post-acquisition of BMM, on a consolidated level, the company has cement manufacturing capacity of 4 MMTPA with captive power plant of 25 MW.

Adequate availability of key raw materials further enhanced with recent grant of mining lease by Govt. of India to BMM for a period of 20 years:

Limestone is the major raw material for production of cement for which SCL has mining lease in place. SCL was allocated two mines in Nalgonda, Andhra Telangana with a total mineable area of 800 hectares. The total reserves available is around 83 Million Tons (MT) which is expected to suffice annual requirement for the next 20 years. The company has mining lease agreement which is valid up to 2026 and can be renewed on expiry. Other major raw material for production of cement is coal for which SCL signed FSA (Fuel Supply Agreement) with Singareni Collieries Company Limited (SCCL) for a period of 3 years starting from April 01, 2014, for supplying 63,750 MT of coal every year. Since SCL has long track record of operations, company has established relationship with suppliers of gypsum, laterite, iron slag, etc.

BMM has been allocated surface mining rights for lime stone mine near Gudipadu Village, Andhra Pradesh, which has an estimated surface deposits of 155 Million Tons. Also, during FY16, BMM has obtained mining lease from the Govt. Of Andhra Pradesh and the lease has been granted for a period of 20 years. Execution of mining lease deed ensures uninterrupted access to quality limestone reserves. Since the Government of Andhra Pradesh has approved the mining operations for BMM, presently company is sourcing its limestone from its captive mine only for its operations.

Strong brand image in the southern part of India and established distribution & marketing arrangements

Cement is bulk commodity with high freight cost. The company's margins depend on the proximity of the servicing market area. SCL's plant is located in Telangana and derives almost 50% of the total revenue from Andhra Pradesh (AP) and Telangana. Over the years, the company has added new markets; however, the gross revenue contribution of AP & Telangana region remain the highest and has increased from 40.98% in FY15 to 47.19% in FY16.. Cement dispatches to Tamil Nadu, Karnataka, Kerala, Maharashtra and Orissa declined from 58.02% in FY15 to 52.81% in FY16. During Q1FY17, 45% of the cement dispatches were to the AP & Telangana markets, while the remaining 55% has been to Tamil Nadu, Maharashtra, Karnataka, Orissa and other regions.

As the BMM unit is strategically located near the AP, Karnataka border it primarily operates in the markets of Tamil Nadu, Karnataka and Andhra Pradesh. While BMM will cater to Karnataka and Tamil Nadu markets; SCL would focus on expanding its reach in Maharashtra & Orissa. SCL sells its product through dealers/stockiest, consignment/C&F agents, direct parties, government and institutional customers.

Significant increase in total operating income and PBILDT levels in FY16 for BMM, albeit losses over the last three years period ended March 31, 2016

The total operating income of BMM has significantly increased from Rs.102.17 crore in FY15 to Rs.217.24 crore in FY16 on the back of improved operational performance. PBILDT level remained satisfactory at Rs.36.53 crore with PBILDT margin of 16.81%, however, the company has incurred loss of Rs.26 crore on account of higher interest costs. BMM has been incurring losses during the last four years and has been supported by promoters to fund the losses and meet the debt obligations. During FY13, FY14 and FY15, the erstwhile promoters have brought in Rs.42.68 crore, Rs.71.16 crore and Rs.113.75 crore, respectively, in the form of unsecured loans to fund losses and meet the debt obligations.

Post-acquisition, the unsecured loans have been extended by SCL and are subordinated to bank loans. With high unsecured loans and accumulated losses, the capital structure of the company deteriorated significantly.

Ongoing debt-funded capex

SCL is implementing a 6-MW WHR (Waste Heat Recovery) project with capital cost of Rs.65 crore. The company has raised Rs.40 crore of long-term debt through term loan from banks and balance is proposed to be funded through internal accruals. The project work has started from June 1, 2016, and the expected date of completion is November 30, 2017. As on September 15, 2016, the company has incurred Rs.12.82 crore towards the project which has been funded by term loan of Rs.6.43 crore and internal accruals of Rs.6.39 crore.

Also, the company is in the process of acquiring a grinding unit (Bayyavaram Grinding Unit-BYM) with capacity of 0.187 million tonnes owned by Toshali Cement Private Limited with capital cost of Rs.60 crore. The company plans to incur additional cost of Rs.5 crore which when coupled with optimization of the equipment's available is expected to increase the grinding

capacity to 0.3 million tonnes. Post-acquisition of the above grinding unit, SCL would reach 4.3 million MTPA cement capacity on a consolidated basis. The acquisition is envisaged to enable the company to save logistic cost and introduce slag cement to serve markets in Visakhapatnam, Vizianagram, Srikakulam and parts of Orissa. The company has raised long term debt of Rs.40 crore, while the remaining funding will be through internal accruals.

Industry outlook

Demand for cement is expected to gradually improve with the recovery in infrastructure, investment cycle, rural demand given better monsoons and increasing government efforts towards rail, road, housing, irrigation infrastructure.

Prospects

The company is expected to benefit from growth in demand for cement. However, the company would have to ensure that it is able to derive the expected synergies from BMM and the proposed grinding unit and thereby further increase its presence in the markets with higher realisations. The company would also have to ensure timely completion of ongoing capex for the WHR project and the grinding unit acquisition and increase the scale of operations at consolidated level.



Financial Performance

(Rs. Cr)

For the period ended / as at March 31,	2014 (12m,A)	2015 (12m,A)	2016 (12m,A)	2016(console) (12m, A)
Working Results				
Net Sales	488.9	544.68	618.41	751.15
Total Operating income	505.52	561.81	650.14	757.66
PBILDT	17.93	73.52	124.45	128.28
Interest	35.65	40.9	33.15	45.88
Depreciation	26.93	21.5	23.37	33.65
PBT	-37.92	378.07	73.6	54.4
PAT (after deferred tax)#	-25.58	296.65	49.76	46.1
Adjusted PAT	-25.58	16.13	49.76	46.1
Gross Cash Accruals	-10.99	333.72	76.88	67.96
Financial Position				
Equity Capital	17.39	17.39	17.39	17.39
Net worth	240.87	521.14	553.13	477.71
Total capital employed	496.22	814.12	795.79	1010.18
Key Ratios				
<i>Profitability</i>				
PBILDT/Total Op. income (%)	3.55	13.09	19.14	16.93
PAT (after deferred tax)/ Total income (%)	-5.06	52.8	7.65	6.08
Adjusted PAT (after deferred tax)/ Total income (%)#	-5.06	2.72	7.65	6.08
ROCE (%)	-1.5	61.23	12.54	6.08
<i>Solvency</i>				
Long-term Debt Equity ratio (times)	0.65	0.3	0.23	0.73
Overall Gearing (times)	0.93	0.47	0.35	0.91
PBILDT/Interest (times)	0.61	3.19	4.56	3.2
PBIT/Interest (times)	NM	2.25	3.7	2.36
Term Debt/GCA (times)	NM	0.47	1.64	5.11
Total Debt/GCA (times)	NM	0.73	2.54	6.39
Total Debt/ Adjusted GCA (times)#	NM	6.68	2.54	6.39
<i>Liquidity</i>				
Current ratio (times)	0.73	1.71	0.89	0.65
Quick ratio (times)	0.54	1.52	0.68	0.38
<i>Turnover</i>				
Average collection period (days)	29	30	27	17
Average Inventory (days)	56	51	56	33
Average Creditor (days)	52	53	57	38
Operating cycle (days)	34	29	26	12

A – Audited; NM-not meaning full; #-Adjusting for post-tax gain on sale of investment

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CIN-L67190MH1993PLC071691

Details of Rated Facilities

1. Long-term facilities

1. A. Secured rupee term loans

(Rs. Cr)

Name of Bank	Rated Amount	Remarks
ICICI Bank Limited	64.81	Outstanding as on August 31,2016
State Bank of Hyderabad	34.98	
State Bank of India	40.00	
State Bank of India	15.76	
Total Facility	155.55	

1. B. Fund-based Limits

(Rs. Cr)

Name of Bank	Fund-based Limits	
	Cash Credit	Total Fund-based Limits
State Bank of India	28.80	28.80
State Bank of Hyderabad	28.80	28.80
IDBI Bank Ltd	14.40	14.40
Total	72	72

Total Long-term Facilities (1.A.+1.B.) : Rs.227.5 crore

2. Short-term Facilities

2. A. Fund-based Limits

(Rs. Cr)

Name of Bank	Non-fund-based Limits	
	Facility	Limit
State Bank of India	Stand by Line of Credit	5
State Bank of Hyderabad	Stand by Line of Credit	5
Total		10

2. B. Non-fund-based Limits

(Rs. Cr)

Name of Bank	Non-fund-based Limits	
	Facility	Limit
State Bank of India	LC/BG	7
State Bank of Hyderabad	LC/BG	8
Total		15

*LC=Letter of credit; BG=Bank guarantee

Total Short-term facilities (2.A.+ 2.B.) Rs.25 crore

Total Facilities: (1. + 2.): Rs.252.55 crore

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.



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Annexure - II

Brief Rationale

CARE revises the ratings assigned to the Bank Facilities of Sagar Cements Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings ²	Remarks
Long-term Bank Facilities	227.55 (reduced from 235.56)	CARE BBB (Triple B)	Revised from CARE BBB- (Triple B Minus)
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debt-funded acquisition of the grinding unit. On the consolidated level, ability of the company to improve the scale of operations, sustain profitability margins and to rationalize debt are the key rating sensitivities.

Background

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In FY16, SCL on a standalone level has reported PAT of Rs.49.76 crore (PAT of Rs.296.65 crore in FY15) on total operating income of Rs.650.14 crore (Rs.561.81 crore in FY15).

In FY16, SCL on a consolidated level has reported PAT of Rs.46.10 crore on total operating income of Rs.757.66 crore. During Q1FY17, SCL reported total operating income of Rs.197.43 crore on a consolidated level.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.



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Disclaimer

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.



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