Sanghi Industries Limited

November 19, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme (NCD)	258.00	258.00	[ICRA]A(Stable); Outstanding
Term Loan	200.00	200.00	[ICRA]A(Stable); Outstanding
Fund Based Limit	185.00	210.00**	[ICRA]A(Stable); Assigned/ Outstanding
Non-Fund Based Limit	15.00	15.00	[ICRA]A1; Outstanding
Total	**658.00**	**683.00**	

*Instrument details are provided in Annexure-1

** Includes Rs. 25 crore interchangeability with non-fund based limits

Rating action

ICRA has assigned the long-term rating of [ICRA]A (pronounced ICRA A) to the enhanced portion of Rs. 25.00-crore[1] fund based facility of Sanghi Industries Limited (SIL or the company). ICRA also has an outstanding long-term rating of [ICRA]A (pronounced ICRA A) on the Rs. 200.00-crore term loans and the Rs. 185.00-crore fund based facilities of the company as well as on the Rs. 258.00-crore non-convertible debenture programme of the company. The outlook on the long-term rating is 'Stable'. ICRA also has an outstanding short-term rating of [ICRA]A1 (pronounced ICRA A one) on the Rs. 15.00-crore non-fund based bank facilities of the company[2].

Rationale

The ratings factor in the benefits arising out of the integrated nature of SIL's cement operations by way of easy access/low cost of raw materials due to captive mines, production scale economies given the large sized single kiln operations, ease of cement/clinker off-take by way of a captive jetty; and access to captive power plant with multiple fuel in-take options. The ratings also take into account the healthy liquidity position of the company and the successful completion of moderate capex plans which should result in improvement in cost structure. The ratings further favourably factor in the expected improvement in contribution margins on the back of ramp-up in capacity utilization levels and increasing proportion and acceptability of its PPC products.

The ratings are, however, constrained by the vulnerability of the cement industry to cyclical trends and the geographical concentration related risks in the company's cement business given that over 80% of the sales are derived from Gujarat region. The ratings also factor in the vulnerability of company's profitability to the fluctuations in fuel and other raw material prices, moderate return indicators given the relatively moderate capacity utilization level, modest projected coverage indicators and the execution risks associated with the large expansion plans over the next year.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Outlook: Stable

The 'Stable' outlook reflects the favorable demand outlook for the cement industry in the near term, company's established position in the western region and the company's comfortable liquidity position owing to healthy cash balances. The outlook may be revised to 'Positive' if there is a material improvement in the return indicators and reduction in project related risks for the company. The outlook may be revised to 'Negative' if there is any significant deterioration in the coverage indicators, substantial increase in operating costs, elongation in cash conversion cycle or time/cost overruns in the ongoing expansion project.

Key rating drivers

Credit strengths

Integrated cement operations; access to cheap raw materials and captive power plant with multiple fuel options supports the cost structure - SIL has an integrated cement production facility with easy access to high quality raw material – limestone at its captive mine located about 3 km from its plant. Further it has access to other raw materials like laterite, silica, clay and fly ash in the region with captive mines available for laterite, silica and clay. SIL has its own source of power in the form of a 61.5 MW captive power plant (CPP) which is located about 10 km from the clinker plant and 2 km from the cement plant, adjacent to its captive jetty. The captive jetty allows SIL to directly import coal/pet coke for operating its CPP as well as for its cement operations. In terms of its fuel mix, it has the option to switch fuel source to lignite/imported coal/pet coke at both its CPP and clinker unit giving it flexibility to control its energy costs depending on market conditions.

Gradual move towards high-margin cement variants; access to consumption centres along the coast as well as clinker export market aids volume growth and mitigates sales risks - The company continues to increase its sales of PPC variants which, in FY2018, stood low at about 34% of total cement sales. Going forward, higher PPC concentration would be favorable for contribution margins. Also, SIL has access to Mumbai and Kochi markets by way of sales arrangements through coastal transportation. Although the sales to Kochi remain limited, Mumbai sales are expected to improve on commissioning of the two new barges. Further, ability to sell clinker in the middle-east, Sri Lanka and other regions through its captive jetty allows the company access to wider markets and mitigates sales risks.

Cost reduction initiatives undertaken by the company to aid improvement in EBITDA margins - The company, in FY2018, completed capex of ~Rs. 200 crore which largely includes 1) Procurement of two barges, and 2) Setting up of a 13 MW Waste Heat Recovery System (WHRS). The company started operating the barges in Q3 FY2018, whereas the WHRS was made completely operational in Q1 FY2019. These additions will support a sustainable reduction in operating costs and improve the cost structure further.

Favorable capital structure - The company refinanced its Rs. 325 crore debt (Rs. 256 crore in Q4 FY2018 and Rs. 69 crore in Q1 FY2019) which resulted in savings of 5% on interest cost which will have a positive effect on the net margins going forward. The capital structure of SIL, as reflected by gearing, has remained at acceptable levels and has witnessed gradual decline over the years, with a sharp decline of 16% in FY2018 (in spite of higher debt levels) mainly owing to the issuance of fresh equity.

Credit challenges

Geographical concentration risks and cyclical trends in the cement industry - SIL has significant geographical concentration risks given that over 80% of the sales are derived from Gujarat region. Also, with the high competitive pressure in Gujarat given the presence of many industry players owing to healthy demand prospects, existing players like SIL are susceptible to volatility in prices and reduction in market share. While the company has been gradually trying to increase its sales in other geographies through split packaging/sales units in Maharashtra and Kerala, the same has not yielded any significant diversification in sales. However, given the acquisition of new barges in Q3 FY2018, the sales volume in Maharashtra is expected to improve going forward.

Vulnerability of profitability to fluctuation in fuel cost - Power and fuel cost account for a significant portion of the total cost for SIL and any untoward movement in fuel price can affect the company's profitability. For SIL, the power and fuel cost remained in the range of 23-26% of the operating income over past five years. However, in H1 FY2019, this has jumped to ~30% on account of lower availability of low-cost lignite, increase in international coal price and unfavorable exchange rate movement. Going forward, however, ICRA expects this proportion to come down given the renewed supply of lignite from GMDC.

Moderate return indicators given the relatively moderate capacity utilization levels and the high capital cost of its plant - Given that the company has incurred significant capital costs towards setting up the existing plant and exiting CDR, the overall returns of the company remain moderate with return on capital employed (RoCE) at 9.2% in FY2018. This has further deteriorated in H1 FY2019 owing to a drop in the EBITDA margin due to increased operating cost.

Project risks associated with large scale debt funded capacity expansion - In January 2018, SIL announced finalization of its plan to expand its cement capacity from 4.1 million tonnes per annum (MTPA) to 8.1 MTPA. ICRA notes that the project has a competitive capital cost per ton of cement at $48/ton (about 50% of industry average) on account of the brownfield nature of the project and the fact that several common infrastructures have already been put into place. The company has planned to fund the project at a Debt:Equity ratio of 1.78:1 with equity coming in up-front (Rs. 400 crore raised in February 2018), which will prevent any pressure on cash flows of the existing unit and support the liquidity requirements during the project. ICRA expects leveraging levels (Total Debt/OPBDITA) to increase and peak at about 5.5x times in FY2020, post which, it should decline following the commencement of sales from the new capacity. Nonetheless, given the large scale of the project and the associated execution and market risks, the timely progress on the project without time and cost overruns will be a key monitorable.

SIL remains exposed to exchange risks, given the net importer status and limited hedging - SIL has been a net importer during most of the previous years of operations. The company does not hedge its foreign exchange exposure and the profitability remains exposed to exchange rate fluctuations.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Entities in the Cement Industry

About the company:

Sanghi Industries Limited is the flagship company of the Ravi Sanghi Group and is engaged in the production and distribution of cement under the brand name "Sanghi Cement". The manufacturing facility of the company is located at Sanghipuram in the Kutch district of Gujarat State. The clinker plant has a capacity of 3.3 million MTPA clinker and 4.1 million MTPA cement. The company produces superior quality 53 Grade OPC and PPC Cement. The company also has a captive jetty to handle its export/coastal cargo, captive mines to meet its major raw material requirement, captive water desalination plant and a 61.5 MW captive power plant to meet its power requirements. The company is also two-way connected to Government's power grid, including for sale of surplus power.

During FY2018, SIL reported operating income of Rs. 1026.4 crore and profit after tax of Rs. 93.3 crore. During FY2017, SIL had reported operating income of Rs. 997.5 crore and profit after tax of Rs. 63.2 crore.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	997.5	1026.4
PAT (Rs. crore)	63.2	93.3
OPBDIT/OI (%)	19.9%	21.0%
RoCE (%)	8.2%	9.2%
Total Debt/TNW (times)	0.54	0.46
Total Debt/OPBDIT (times)	3.0	3.4
Interest coverage (times)	3.1	3.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No	Instrument	Current Rating (FY2019)					Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating		Date & Rating in FY2018				Date & Rating in FY2017		Date & Rating in FY2016
					November 2018	July 2018	February 2018	January 2018	July 2017	May 2017	February 2017	June 2016	
1	Non-Convertible Debenture	Long Term	258.00	256.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	-	-	-	-	-
2	Term Loan	Long Term	200.00	179.76	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-
3	Fund Based Limit	Long Term	210.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA] BBB (Stable)	-
4	Non-Fund Based Limit	Short Term	15.00	-	[ICRA] A1	[ICRA] A1	[ICRA] A2+	[ICRA] A2+	[ICRA] A2+	[ICRA] A2+	[ICRA] A2+	[ICRA] A3+	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE999B07028	Non-Convertible Debenture	7-Mar-2018	10.50%	7-Mar-2023	258.00	[ICRA]A(Stable)
NA	Term Loan	Mar-2017	10.75%	Mar-2024	200.00	[ICRA]A(Stable)
NA	Fund Based Limit	NA	NA	NA	210.00*	[ICRA]A(Stable)
NA	Non Fund Based Limit	NA	NA	NA	15.00	[ICRA] A1

Source: Sanghi Industries Limited

* Includes Rs. 25 crore interchangeability with non-fund based limits

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Ankit Patel
+91 79 4027 1509
ankit.patel@icraindia.com

Parth Shah
+91 79 4027 1527
parth.shah@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents