India Ratings & Research
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India Ratings Downgrades Sagar Cements's NCDs & Bank Loans to 'IND BBB+'/Negative

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India Ratings and Research (Ind-Ra) has downgraded Sagar Cements Limited's (SCL) debt's long-term rating to 'IND BBB+' with a Negative Outlook from 'IND A' and short-term rating to 'IND A2' from 'IND A1'. The instrument-wise rating actions are as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Fund-based working capital limits	-	-	-	INR250	IND BBB+/Negative/IND A2	Assigned
Non-fund-based working capital limits	-	-	-	INR500	IND A2	Assigned
Non-fund-based working capital limits	-	-	-	INR2,680	IND A2	Downgraded
Term loan	-	-	31 March 2031	INR2,059.60 (reduced from INR2,572.40)	IND BBB+/Negative	Downgraded
Non-convertible debentures*	-	-	-	INR115.40 (reduced from INR230.80)	IND BBB+/Negative	Downgraded
Fund-based working capital limits	-	-	-	INR2,220	IND BBB+/Negative/IND A2	Downgraded

*Details in Annexure

Analytical Approach

Ind-Ra continues to fully consolidate SCL's subsidiaries - Sagar Cements (M) Private Limited (SCMPL; 'IND BBB+'/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 downgrade reflects the likelihood of SCL's performance being significantly weaker-than-Ind-Ra's expectation over FY25-FY26 with a lower EBITDA generation leading to higher net debt levels and reduced liquidity cushion. With the sharp fall in cement prices in FY25, Ind-Ra expects SCL's EBITDA/metric tonne (mt) to have declined in FY25, which coupled with flattish volumes, is likely to have resulted in a significant decline in the EBITDA, against its earlier expectations of some recovery. However, Ind-Ra expects the sale volumes to improve in FY26 led by an improvement in infrastructure demand in the region as well as completion of capex at its subsidiary ACL by 1HFYE26. After witnessing the sharpest fall in prices in the last decade, Ind-Ra expects cement prices to witness some stability and improvement in FY26, which could improve SCL's profitability. However, notwithstanding some improvement, Ind-Ra expects SCL's EBITDA to remain significantly lower than its earlier expectations in FY26.

Ind-Ra had earlier factored in the management's commitment to structure its capex plans according to cash flow generation to ensure a reduction in the net leverage (net debt/operating EBITDA) below 3.5x latest by FY26. However, with the ongoing capex amid the weak profitability, the deleveraging is likely to be pushed by another year. The weak performance has also reduced the headroom in SCL's liquidity cushion with the likelihood of the entity requiring external funding to support its debt servicing obligations in FY26.

The Negative Outlook reflects the potential risk to SCL's liquidity and deleveraging if the recent price hikes do not sustain, leading to a weaker-than-expected EBITDA in FY26. Although, Ind-Ra takes some comfort from the liquidity of around INR1.4 billion (including unrestricted cash of INR0.7 billion and unused drawable working limits of INR0.7 billion) available at end-March 2025, aided by the working capital release in 4QFY25 and fund infusion in the form of unsecured loans from the promoters. Furthermore, the management is undertaking measures including monetisation of non-core assets and capital raise to improve liquidity and credit metrics, and has also communicated to Ind-Ra of its commitment to inject liquidity into the entity to ensure timely servicing of obligations, if needed. Ind-Ra will continue to closely monitor the profitability and liquidity position of the entity.

Ind-Ra continues to draw comfort from SCL's comfortable market position in the cement industry and its geographically diversified operations across three regions. The promoters have over four decades of experience in the cement industry.

List of Key Rating Drivers

Strengths
- Comfortable market position, likely to improve with capex completion
- Geographically diversified with presence in three regions
- Adequate raw material linkages and captive power

Weaknesses
- EBITDA likely to remain weaker-than-expected despite some recovery in FY26
- Reduction in liquidity cushion
- Further delays in deleveraging amid continued capex and weak EBITDA

Detailed Description of Key Rating Drivers

Comfortable Market Position, Likely to Improve with Capex Completion: SCL's capacity increased by over 80% to 10.5 million tonnes (mnt) over FY21-FY24 due to a combination of organic and inorganic growth. After completing greenfield projects in Odisha and Madhya Pradesh in 2HFY22, SCL acquired ACL in March 2023. This capacity expansion has strengthened SCL's business profile by improving its market position and geographical presence. The management plans to further increase the capacity to 11.25mnt over the next couple of years with the capex completion at ACL and further to 11.65mnt with the grinding expansion at SCMPL, depending on market conditions and cash flows.

Geographically Diversified with Presence in Three Regions: While SCL remained a south focused entity until FY21, the company has expanded its manufacturing presence in central and eastern regions, which have high growth potential. SCL's concentration in the southern region has been decreasing (FY24: 70%, FY23: 75%). In FY24, Andhra Pradesh accounted for 29% of the cement sales, Telangana 24%, Tamil Nadu 10%, and Karnataka 7%. Management expects Telangana (50% of sales mix in FY24), Andhra Pradesh (30%), and Tamil Nadu (20%) to be the key markets for ACL. The infrastructure spending remained weak in FY25 with the general elections leading to subdued demand. Ind-Ra believes the development of Andhra Pradesh's new capital, Amravati, along with increased budget allocations for essential infrastructure such as water, power, railways, and roads over the medium term, is likely to support cement demand in the southern region.

Adequate Raw Material Linkages and Captive Power: Following the ACL acquisition, SCL has consolidated limestone reserves of approximately 944mt, sufficient to meet the medium-to-long-term limestone needs of its existing plants. SCL is also developing feeders for alternative fuel consumption across all its plants, allowing flexibility in fuel choice based on availability and cost.

At the consolidated level, SCL has a 73MW captive thermal power generation capacity, a 14.1MW-waste heat recovery plant, and around 16MW of solar and hydro power plants, which are sufficient to meet the power requirements of the entities, including the new capacities being added. The company has also managed to reduce its lead distance by about 38% over FY17-FY24 (FY24: 4%; FY23: 8%).

EBITDA Likely to Remain Weaker-than-expected despite Some Recovery in FY26: SCL's volumes are likely to have remained flattish in FY25, given the slowdown in demand (9MFY25: down 2% yoy); Ind-Ra expects the sales volume to improve in FY26 backed by infrastructure spending and the completion of ACL capex. The muted demand and sizeable capacity additions resulted in a decadal high fall in prices in FY25, leading to a fall in EBITDA/mt to INR273 in 9MFY25 (9MFY24: INR456). Ind-Ra understands that prices have improved in April 2025 but the sustainability remains a monitorable, given the influx of capacities and a high competitive intensity. Ind-Ra believes the completion of ACL capex plan, along with planned efficiency improvements will enhance the plant's cost structure, leading to higher margins and better cash generation. ACL recorded sales volume of around 0.5mt in FY24and EBITDA losses of INR32 million.

The gradual ramp up of output at ACL post the expanded capacities kick in, coupled with operational efficiencies and fixed-cost absorption is likely to result in improved operational EBITDA at the consolidated level. As a result, while some improvement is likely in FY26, Ind-Ra believes SCL's EBITDA/mt is likely to remain lower than its earlier expectations. Weak demand and profitability had resulted in a fall in SCL's EBITDA to INR1 billion in 9MFY25 (9MFY24: INR1.8 billion), with only a likely marginal improvement in 4QFY25. This was against Ind-Ra's earlier expectation of an improvement in FY25.

Reduction in Liquidity Cushion: The weak performance has also reduced the headroom in SCL's liquidity cushion with the likelihood of the entity requiring external funding to support its debt servicing obligations in FY26. Also, if the recent price hikes do not sustain, it could lead to a weaker-than-expected EBITDA and consequently impact the liquidity. Ind-Ra takes some comfort from the liquidity of around INR1.4 billion available at FYE25, aided by the release of working capital in 4QFY25 and fund infusion from the promoters. SCL has scheduled debt repayment obligations of around INR1.4 billion, each, in FY26 and FY27 in addition to the interest obligation of INR1.8 billion-1.9 billion and INR2.1 billion-2.2 billion, respectively, for which the entity may require external funding support. The management is undertaking measures including monetisation of non-core assets and capital raise to improve liquidity and credit metrics, and has also communicated to Ind-Ra of its commitment to inject liquidity to ensure timely servicing of obligations, if needed. The management also plans to pump in funds through promoter entities, along with the dilution of non-core assets and a 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. Ind-Ra will continue to closely monitor the profitability and liquidity position of the entity.

At the consolidated level, SCL's total cash and cash equivalents stood at INR1.65 billion at FYE25 (FYE24: INR2.6 billion), which includes a free cash balance of INR0.7 billion, a debt service reserve account of INR0.3 billion and INR0.6 billion towards margin money for non-fund-based limits. On a consolidated basis, the average utilisation of the fund-based and non-fund-based limits was around 86% and 82%, respectively, over the 12 months ended March 2025, indicating a moderate liquidity cushion. At the standalone level, SCL's utilisation of fund-based and non-fund-based limits was around 89% and 91%, respectively, over the same period. SCMPL has sanctioned working capital limits of INR1,100 million (fund-based limits: INR350 million with utilisation of 50% over the 12 months ended March 2025; non-fund-based limits: INR750 million, around 77%). ACL's average use of INR45 million fund-based working capital limits was 86% and non-fund-based limits of INR60 million was 54% over the 12 months ended March 2025.

Further Delays in Deleveraging amid Continued Capex and Weak EBITDA: Ind-Ra had earlier factored in the management's commitment to structure its capex plans according to cash flow generation to ensure a reduction in the net leverage below 3.5x latest by FY26. However, with the ongoing capex amid the weak profitability, the deleveraging is likely to be pushed by another year.

The management is undertaking the second phase expansion 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 which will be completed by March 2026. The said capex will be funded by a mix of term debt (INR3,000 million) and fresh fund infusion. The management has guided that it may slowdown capex and defer some portion to FY27 in case of sustained weakness in the sector. The non-deferable capex is around INR1,720 million, of which around INR450 million has been spent and the remaining may be completed by September 2025. SCL also has various green power capacity expansions planned across various plants, which, including capacity expansion at Jeerabad unit by around 0.4mnt, amounts to INR9 billion-10 billion.

With the fall in EBITDA, SCL's gross interest coverage (EBITDA/gross interest expense) fell to 0.7x in 9MFY25 (FY24: 1.3x; FY23: 0.8x) and net leverage shot to 8.3x (5.1x; 8.4x). Ind-Ra expects the interest coverage to have remained below 1.0x in FY25; although it expects a gradual improvement over FY26-FY27 contingent upon EBITDA improvement and external liquidity infusion to pare debt. 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, is it is likely to have deteriorated in FY25.

Liquidity

Stretched: The weak performance has also led to a reduction in headroom in SCL's liquidity cushion with the likelihood of the entity requiring external funding to support its debt servicing obligations in FY26. Also, if the recent price hikes do not sustain, it could lead to a weaker-than-expected EBITDA and consequently impact the liquidity. Ind-Ra takes some comfort from the liquidity of around INR1.4 billion available at FYE25, aided by the release of working capital in 4QFY25 and fund infusion from the promoters. SCL has scheduled debt repayment obligations of around INR1.4 billion, each, in FY26 and FY27 in addition to the interest obligation of INR1.8 billion-1.9 billion and INR2.1 billion-2.2 billion, respectively, for which the entity may require external funding support. The management is undertaking measures including monetisation of non-core assets and capital raise to improve liquidity and credit metrics, and has also communicated to Ind-Ra of its commitment to inject liquidity to ensure timely servicing of obligations, if needed. The management also plans to pump in funds through promoter entities, along with the dilution of non-core assets and a reduction in the promoter holding in ACL to 75%, in line with the listing requirements to be done before March 2026. Ind-Ra will continue to closely monitor the profitability and liquidity position of the entity.

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SCL's cash flow from operations turned positive to INR1,833 million in FY24 (FY23: negative INR584 million; FY22: INR40 million), driven by higher EBITDA and the release of working capital. During 9MFY25, there was a slight increase in working capital, which normalised in 4QFY24 according to management. However, a lower-than-expected EBITDA and existing term debt has put pressure on the company's liquidity, leaving a thin cushion.

Rating Sensitivities

Positive: A significant and sustained improvement in the operating profitability, leading to an overall improvement in the liquidity position and credit metrics with the net leverage reducing below 4.5x 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:
- an 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 remaining above 4.5x, on a sustained and consolidated basis.

Any Other Information

Standalone Performance: At the standalone level, SCL reported revenue of INR11,068 million in 9MFY25 (FY24: INR19,076 million; FY23: INR19,638 million) and EBITDA of INR486 million (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 Financial Indicators

Particulars (Consolidated)	9MFY25	FY24	FY23
Revenue (INR billion)	16.00	25.05	22.30
EBITDA (INR billion)	1.04	2.46	1.53
EBITDA margins (%)	6.5	9.8	6.9
Gross interest coverage (x)	0.74	1.33	0.76
Net leverage (x)	8.29	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			
				12 August 2024	16 October 2023	31 March 2023	22 December 2022
Issuer rating	Long-term	-	-	-	WD	IND A/Stable	IND A/Rating Watch with Developing Implications
Fund-based working capital limit	Long-term/Short-term	INR2,470	IND BBB+/Negative/IND A2	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

Non-fund-based working capital limit	Short-term	INR3,180	IND A2	IND A1	IND A1	IND A1	IND A1/Rating Watch with Developing Implications
Term loan	Long-term	INR2,059.6	IND BBB+/Negative	IND A/Negative	IND A/Negative	IND A/Stable	IND A/Rating Watch with Developing Implications
Non-convertible debentures	Long-term	INR115.4	IND BBB+/Negative	IND A/Negative	IND A/Negative	IND A/Stable	IND A/Rating Watch with Developing Implications

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limit	Low
Non-convertible debentures	Low
Non-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
Non-convertible debentures	INE433R07016	23 March 2016	Reset rate*	28 May 2025	INR115.4	IND BBB+/Negative
*Current interest rate of 11.6% Source: NSDL, Company						

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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.

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

Parent and Subsidiary Rating Linkage