Management discussion and analysis

I. Global economic review

The year bygone has been through a lot of fluxes that were marked with challenges. Global growth has been subdued at 2.9% in CY2019 compared to the 3.6% in CY2018, mainly due to the effects of the extended lag of the Q4 CY2018. The bottoming out of key economic growth factors in the second half of the CY2019 was weighed down by a slowdown in manufacturing and trade that was caused by trade policy uncertainty, geopolitical tensions and market stress in key developing economies. A modest recovery in Q4 CY2019 showed early signs of stabilisation, mainly due to continued consumer spending and increased business spending, reduced market stress in developing economies and monetary easing measures by Central Banks.

CY2020 commenced with increased stability on the horizons owing to the phase one agreement of the US–China trade conflicts and the uncertainty around Brexit settling down. However, the COVID-19 pandemic afflicted the world, leading to a complete shutdown—impacting life and economic growth across the world. Reduced demand due to insecurity surrounding employment and the rise of a saving culture coupled with lowered investment by businesses due to economic uncertainty compounded the economic crisis. With the growth rate declared as an all-time low in the past 60 years, exceeding the effects of the Great Depression, the recovery from this recession is marked with uncertainty. However, concerted efforts from all corners of the world by governments, corporates, NGOs and others, are ushering in hope.

Outlook

The far-reaching effects of the COVID-19 global shutdown, marked with rising containment costs and shutdown of economic activity, have hit economies hard, more so the low-income developing economies. Growth is estimated to decelerate sharply by 4.9% in CY2020, much below the dropdown caused by the 2008 financial crisis. Growth of an estimated 170 countries would be negatively impacted in 2020. However, assuming that the pandemic is controlled and dissipates in the second half of the year, the resumption of manufacturing and trade activity, as well as policy measures taken to support such growth, would spur growth, leading to an estimated growth of 5.4% in CY2021.

Fiscal efforts touching US$ 8 Trillion by governments and Central Banks along with the monetary measures taken by G20 nations, are helping ease the effect of the crisis. The IMF has secured its US$ 1 Trillion lending capacity through bilateral borrowing, while the Catastrophe Containment and Relief Trust (CCRT) is being boosted to US$ 1.4 Billion to meet the debts of low-income developing economies. These concerted measure, along with proper containment measures of the pandemic, would significantly impact the recovery of global growth rate in CY2021.

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II. Indian economic review

The growth of the Indian economy has been hampered by a cyclical slowdown, touching 5% in FY2020, compared to its growth of 6.1% in FY2019. Triggered by a sharp deceleration in domestic consumption and slump in manufacturing, the slide was also exacerbated by lowered exports, tepid investment sentiment and lowered tax collection in the first three quarters of the financial year. Inflation increased from 3.3% in the first half of FY2020 to an all-time high of 7.3% in December 2019 due to a temporary spike in food inflation caused by unseasonal rains and low rainfall during the monsoons.

To address the decelerated growth rate, the government introduced reforms such as the easing of credit to the stressed real estate and the NBFC sectors. To facilitate this, the RBI reduced repo rate by 135 bps throughout the year. The government also speeded up the insolvency resolution process of the Insolvency and Bankruptcy Code (IBC) and raised the fiscal deficit target to 3.8% as opposed to the 3.3% pegged for FY2020 in the Union Budget 2020-21.

Growth during the year has largely been influenced by the performance of key drivers such as the industry and infrastructure, agricultural and food management, the services sector and the social infrastructure, besides the employment and human development sectors. The services sector contributes to about 55% of the economy and GVA growth, contributing to two-thirds of total FDI inflows and about 38% of total exports. The industrial sector, dominated by the steel, cement and fertiliser industries, received a boost due to increased capacity installation of power generation, communication technology development and increased infrastructure spending on the National Infrastructure Pipeline (NIP). An investment plan for 2020-2025, unveiled by the central government for enhancing infrastructure in identified sectors, aims to provide world-class infrastructure across the country and improve the quality of life for all citizens.

Despite these measures, the unprecedented COVID-19 pandemic and the imposed lockdown have deeply impacted human life and economic activity within the country. With the disruptions of supply chains due to the global lockdown, lowered demand led to businesses coming to a standstill. The problems of degrowth in FY2021 have led to drastic measures such as postponed expansion and fund-raising plans, reduced exports, manpower reduction to cut down on costs, thereby stunting the recovery of the Indian economy in its tracks.

To shore up demand and support the state governments in their efforts, the central government has announced a ₹ 20 trillion package, worth 10% of the GDP. The relief package, which is one of the largest economic packages announced by the government, is designed to put money in people's pockets, thereby spurring domestic consumption. It also emphasises on supporting the cottage industry, micro, small and medium enterprises (MSMEs), daily wage earners and the economically challenged. The package was announced with a call to action for a self-reliant India, founded on the pillars of Economy, Infrastructure, System, Vibrant Demography and Demand.

Outlook

While the future is marked with uncertainty, the lifting of the imposed lockdown in the coming months would recommence economic activity in a phased manner. The Indian economy is expected to contract by 4.5% in FY2020 and bounce back with a 6% growth in FY2021. The government's policy measures, the monetary easing by central banks and the government's ₹ 20 Trillion package, would significantly dissipate the severity of the situation, and position the Indian economy on the road to recovery.

III. Industry overview

Performance

The cement industry, one of India's most dynamic and fast paced sectors, has an estimated cement production capacity of 550 million tonnes per annum (MTPA) as of FY2020. As the second largest cement producer in the world, India accounts for ~8% of the global cement production (in terms of installed capacity), out of which the top 20 companies account for 70% of the total production. The industry's cement production touched 337.32 MnT from April 2019 to January 2020.

While the outlook looked bright with cement production capacity peaking to 550-600 MTPA by FY2025, the onset of the COVID-19 pandemic and the subsequent global lockdown has impacted the industry's growth considerably. With construction, logistics, manufacturing and exports coming to a standstill, growth is estimated to decline by 45-50% in Q1 FY2021, with single digit growth expected in the second quarter. (Source: IBEF, India Ratings and Research)

Reduced demand and supply ratio

Cement manufacturing has increased steadily, driving the supply side of the Indian cement industry over the years. The growth is supported by an abundant supply of essential minerals used for manufacturing cement, which include limestone (calcium), bauxite

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(aluminium), iron ore, and coal. This has resulted in zero- or low-cost of import of raw materials for cement manufacturers, thus making cement businesses profitable in India.

The demand for cement will continue to grow in the next few years. The housing segment accounted for maximum demand in FY2019, with approximate 38% demand generated by the rural housing sector, followed by approximate 32% demand by the urban housing sector. There would be a steady increase in demand due to the robust execution of affordable government housing schemes like the Pradhan Mantri Awas Yojana, and Housing for All by 2022. Apart from these, the commercial and industrial investments as well as the infrastructure segment comprising the government's ambitious plan of developing 98 smart cities, have accounted for rising demand for cement.

To meet this growing demand, supply has been stepped up with additional capacity installation, which in turn is boosted with ready availability of raw material—sourced locally or through imports. The sector has received a boost due to the availability of capital for infrastructure development at lowered interest rates, controlled pricing by major players and lowered threat from the substitutes market, which will contribute to the enhanced performance of this sector. An additional capacity of 18-20 MTPA will be added in FY2020, mainly due to the easy availability of essential minerals such as limestone (calcium), bauxite (aluminium), iron ore, and coal, thereby driving the supply side of the Indian cement industry over the years.

Geographic distribution

The industry consists of 210 large cement plants, which account for a cumulative installed capacity of over 410 million tonnes, while 350 smaller plants account for the rest. Of the large cement plants, 77 are located in the states of Andhra Pradesh, Rajasthan and Tamil Nadu. A capacity addition of 20 MTPA is expected between FY2019 and FY2021. The state of Tamil Nadu, Andhra Pradesh, and Karnataka, together accounted for the highest cement production installed capacity of ~35% in FY2018, followed by Rajasthan, Punjab and Haryana, which collectively accounted for ~23% of the total installed capacity.

Key trends

The growth of the cement industry is influenced by several key trends that would reduce the supply-demand ratio in the coming years.

(Source: IBEF, Motilal Oswal Cement Sector Update–Jan 2020)

1. **Increase in housing and infrastructure development**

   The demand for cement will be driven by the government's ambitious development initiatives. Announced during the Union Budget 2020-21, the initiatives that would boost the growth of the cement industry include

   - Extended benefits under Section 80-IBA of the Income Tax Act till 31st March 2020 to promote affordable housing in India
   - Allocation of ₹ 139 Billion (US$ 1.93 Billion) for Urban Rejuvenation Mission: AMRUT and Smart Cities Mission
   - Infrastructure development along with housing for all, Smart Cities Mission and Swachh Bharat Abhiyan
   - Upgradation of 1,25,000 km of road length over the next five years
   - Outlay of ₹ 27,500 Crores (US$ 3.93 Billion) allotted under the Pradhan Mantri Awas Yojana in the Union Budget 2020-21

During FY2012–FY2020, imports of cement, clinker and asbestos cement rose at a CAGR of 7.99% to touch US$ 57.61 Million in FY2020.

2. **Easy availability of raw material**

   The boost in cement productivity is influenced by the ready availability of raw material like limestone and coal within the country as well as the increased inflow of FDI related to cement and gypsum products that amounted to US$ 5.28 Billion between April 2000 and December 2019. During FY2012–FY2020, imports of cement, clinker and asbestos cement rose at a CAGR of 7.99% to touch US$ 57.61 Million in FY2020. In a similar trend, India's exports of cement, clinker and asbestos cement increased at CAGR of 10.54% between April and July 2019 to reach US$ 177.93 Million.

3. **Building sustainability**

   With the growing criticality of the Indian cement market, building sustainability over the long term gains increased significance. The Global Cement and Concrete Association (GCCA) will accelerate the sustainable development agenda by helping the industry achieve the Sustainable Development Goals (SDG) that are related to climate change, circular economy and others through adoption of best practices in safety, production, use of cement and concrete in the environment and fostering innovation in the cement and concrete manufacturing sectors.

4. **Pricing trends**

   Partial price control is exercised by major players as well as the subdued threats from the substitutes market. Cement price movement tends to fluctuate with seasonality, which is largely influenced by the sales volumes that are stronger in the first half, but are impacted by a slowdown in construction activity due to monsoons and festive seasons in the second half. A study over a 25-year period showed a rise of 7% on average in the first half of the calendar year, but there was a decline of 2% in the second half.

   January 2020 began on a positive note with a price hike of ~₹ 10/bag (3%) after falling by ~₹ 30/bag (9%) in the second half of CY2019 and will see a continued trend till March 2020 due to the increase in demand. This would be further supported by cost tailwinds in the March 2020 quarter as a result of lowered petcoke price and operating leverage gains from seasonally higher volumes. Compared to the prices in April–May 2019 when price hikes of ₹ 50–60/bag were initiated, the current prices are lower by 6%. The decline is predominantly seen in the east, west and south, while north and central India have fared better due to improved capacity utilisation.

Outlook

Cement production in India is expected to touch 410.21 MnT by FY2024, expanding at a compound annual growth rate (CAGR) of ~3.83% during the FY2019–FY2024 period, owing to rising demand from the government and housing contractors. Cement consumption is anticipated to increase at a CAGR of ~4.38% during the forecast period owing to the sanction of schemes for improving roads and highways connectivity and housing facility related programs, and growing demand from the commercial real estate sector, as per the January 2020 estimates by IBEF.

However, with the onslaught of the COVID-19 pandemic, the industry would face successive declines in FY2020 and FY2021. As per India Ratings and Research, cement capacity utilisation would decline to a historical low of 61% in FY2021.

Growth would subsequently resume, albeit at a slower pace. The eastern states of India will be the new unexplored markets for cement companies and would contribute significantly to their bottom line. Clinker and grey cement export to the Middle East, Africa, and other developing nations of the world in the next ten years, would increase considerably, helping India retain its stronghold on the global map.

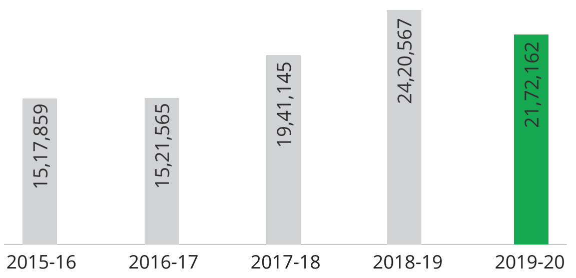
IV. SCL performance overview

Operational performance

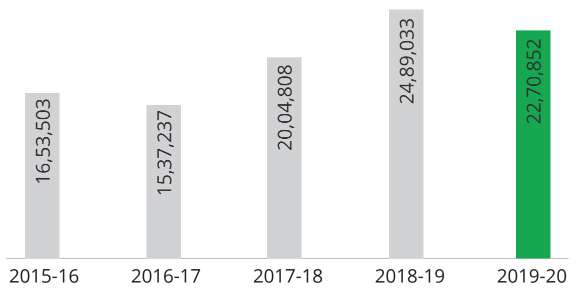
During the first three quarters of the year, SCL performed reasonably well across all metrics. However, in the light of the unprecedented COVID-19 situation, our operations have been impacted and our overall guidance for the year stands affected. That said, we expect the impacts to be short-lived and our overall growth trajectory in the medium- to long-term remains largely on track.

During the year, we clocked an overall sale of ₹ 819.60 Crores, contributed by encouraging response from the Southern and Eastern markets. Our long-standing channel partner relationships continued to hold us in good stead and supported our growth.

Cement Production (in T)

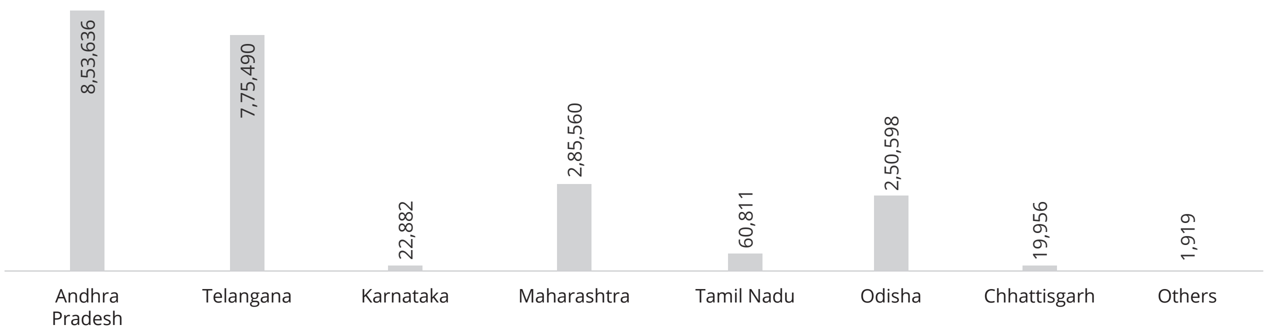


Cement Sales (in T)



Business performance

Region wise Sales (in T)



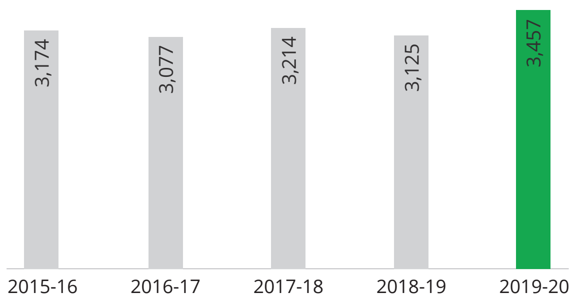
Financial performance

Particulars	FY2020	FY2019
Cement Production (in T)	21,72,162	24,20,567
Cement Sales (in T)	22,70,852	24,89,033
Average Net Sales Realisation per T (₹)	3,457	3,125
Total Revenue (₹ in Lakhs)	86,390	91,707
EBITDA (%)	16	13

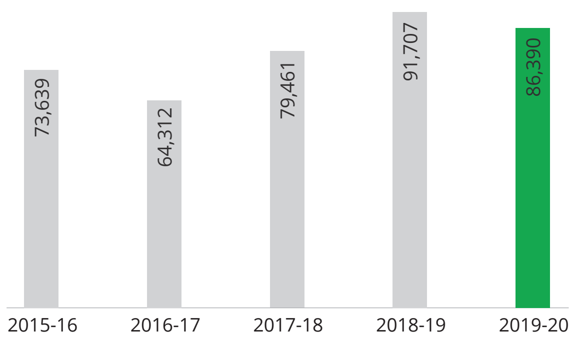
₹ in Lakhs

Particulars	Stand-alone		Consolidated	
	FY2020	FY2019	FY2020	FY2019
Total income	86,390	91,707	1,17,918	1,22,043
Total Expenses	81,767	88,000	1,12,951	1,19,723
Profit Before Tax	4,623	3,707	4,967	2,320
Total Tax	1,150	1,045	2,314	961
Profit After Tax	3,473	2,662	2,653	1,359
Other Comprehensive Income	(42)	(165)	(39)	(186)
Total Comprehensive Income	3,431	2,497	2,614	1,173
Basic & Diluted Earnings Per Share of ₹ 10 each (₹ Per Share)	16.17	13.05	12.36	6.66

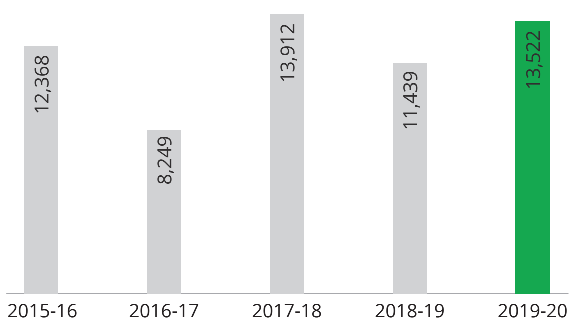
Average Net Sales Realisation (₹ in T)



Total Revenue (₹ in Lakhs)



EBITDA (₹ in Lakhs)



Key Ratios:

Sl. No.	Particulars	FY2020	FY2019
1	Debtor's Turnover Ratio	9.80	13.21
2	Inventory Turnover Ratio	9.08	10.39
3	Interest Coverage Ratio	2.36	2.12
4	Current Ratio	0.90	1.00
5	Debt Equity Ratio	0.14	0.20
6	Operating Profit Margin (%)	9	8
7	Net Profit Margin (%)	4	3
8	Return on Networth (%)	3	3

Our sustainability performance, across environmental, social, human and governance aspects can be found on page 40-41.

V. Risk Management System:

While your Company is subject to normal external business risks associated with similar companies operating within the cement industry, your Company attaches utmost importance to the assessment of internal risks and the management thereof in all its dealings. Like any other dynamic business organisation, your Company is constantly on the lookout for identifying new opportunities to enhance its enterprise value. Keeping in view the need to minimise the risks associated with such efforts, every proposal of significant nature is screened and evaluated for the risks involved in it and then approved at different levels in the organisation before implementation.

With a view to overcoming the risk of dependence exclusively upon any particular marketing segment or region, your Company is trying to reach out to a wider section of its ultimate consumers and, as mentioned earlier, is looking for growth opportunities in other states, where infrastructure spending is set to get a boost.

Your Company has adequate system to manage the financial risks of its operations. The system is implemented through imposition of checks and balances on extending credit to the customers, audits like internal audit, statutory, cost and secretarial audit, all of which are periodically carried out through external firms, proper appraisal of major capital expenditure, adherence to the budget norms covering all areas of its operations and by adequate insurance coverage for the Company's facilities. Further details are available on page 36-39 of this report.

VI. Internal control and audit

Your Board of Directors are satisfied with the adequacy of the internal control system currently in force in all major areas of operations of the Company, supported by an ERP and Compliance Management Systems. The Audit Committee assists the Board of Directors in monitoring the integrity of the financial statements, reservations, if any, expressed by the Company's auditors including, the financial, cost, internal and secretarial auditors and based on their inputs, your Board is of the opinion that the Company's internal controls are adequate and effective.