Management Discussion & Analysis

ECONOMY REVIEW

Global economy

The global economy has witnessed a turbulent year in light of COVID-19. Across the world, nations have witnessed tremendous losses to life as well as contraction in their economies. The economic revival of these countries is contingent on their ability to navigate these uncertain times by forming informed policies and carrying out mass vaccination drives. Vaccine inequality exists with some advanced vaccines having greater access and availability while underdeveloped and developing nations are barely able to cope due to insufficient vaccines and an overburdened health infrastructure. In addition to this, newer strains of the virus are proving to be a challenge and it is yet to be seen how effective the vaccines will prove against them.

Economic recovery also varies hugely among the countries based on the ability of their governments and central banks to frame policy and provide a fiscal injection to boost their economy. The International Monetary Fund (IMF) has projected a global growth rate of 6% in 2021. It was revised from the earlier estimate by 1.1% due to economic revival witnessed in certain countries on the back of mass vaccinations and greater economic mobility.

Post the many lockdowns that were initiated across the world, many industries were able to bounce back due to factors such as pent up demand and greater adaptability to evolving conditions. While sectors such as hospitality and tourism suffered, the reliance on remote work technology has grown immensely over this period. While prospects in the mid-term growth are highly conservative, it is possible to mitigate the economic damage of COVID 19.

Advanced economies are likely to rebound at a faster pace, with many showing early signs of a strong recovery. On the other hand, low income and developing countries have their hands full with insufficient investment towards the upgradation of the health infrastructure and limited means. The brunt of the economic burden is felt by the young, women, and those informally employed.

It is necessary that countries come together to tackle the virus, since its mutations and greater spread are a cause of concern irrespective of geographic location. The virus has already proved its resilience and ability to traverse across borders. Hence, economies across the world must work together for greater vaccine equality.

Outlook

The need of the hour is to ensure that vaccine production is ramped up to enhance accessibility and it is made available at a lower cost for those unable to afford it. At the same time, countries must learn from the past year, and use their time to build their health infrastructure to prepare themselves for subsequent waves of the virus. The effectiveness of vaccines and their impact, ability of governments to adopt effective policy measures, and the resilience of businesses and industries will all have an impact on the global economic revival.

Indian economy

FY2021 was a year of two distinct halves. The initial two quarters witnessed a sharp decline in business activity owing to the consecutive lockdowns and their immediate effects, while the latter quarters witnessed significant uptick in economic growth, release of pent up demand and savings, buoyant capital markets and rising foreign and domestic investor confidence. This was achieved by concerted fiscal policy measures such as the ₹ 20 trillion Aatmanirbhar package, and further supported by an accommodative monetary policy stance. With a balanced emphasis on lives and livelihoods, and strategic impetus, India experienced a net de-growth of only 7.3% (Source: NSO), performing much better than the estimates. This is a true reflection of India's resilience and strength of its economy.

In the Union Budget 2021-22, the central government has allocated ₹ 5,54,000 crore towards capital expenditure. While earlier the government was focused on consumption-led growth, this has changed over the pandemic with a greater push towards infrastructure growth. The government hopes that investing in infrastructure will have a multiplier effect, supplementing the growth of other industries. The INR 10 trillion National Infrastructure Pipeline, announced in the previous fiscal has grown in size to include 7,400 projects. Till now, 217 projects worth ₹ 100,000 crore have been completed under the said pipeline.

FY2021 also witnessed India to retain its position as a robust foreign investment destination with a foreign direct investment close to US$81 billion. The Reserve Bank of India has also undertaken several liquidity measures and interest rate cuts.

The second wave of the virus has dampened the economic recovery that was projected for the country and many states have clamped lockdowns to tackle the rising number of infected people. The negative effects of the pandemic are many. While supply chain and labour disruptions became a common occurrence, the pandemic also had an effect on disposable income and employment levels. In order to mitigate the damage of the pandemic, many businesses adopted cost cutting measures.

Outlook

India is estimated to expand at a growth rate of 12.5% in the coming fiscal year, as per the International Monetary Fund's projections. The growth rate of the country is greater than some of the most advanced economies. Before the second wave devastated the country, the rate of economic revival was better than earlier estimated. The proliferation of the virus and its mutation pose an imminent threat.

As more and more people are getting vaccinated and with the things returning to near normal we hope to witness the same economic revival that was taking place post the initial lockdown. The Indian economy is resilient as was suggested by mobility indicators during the period.

The country is quickly ramping up both its health infrastructure and vaccination drive. There is also an uptick in industrial production as well as demand for energy, construction material and steel. Confidence in the economy will however depend on the national government's ability to cope with the health crisis, the efficacy of policy measures and the success of the vaccination drive.

INDUSTRY REVIEW

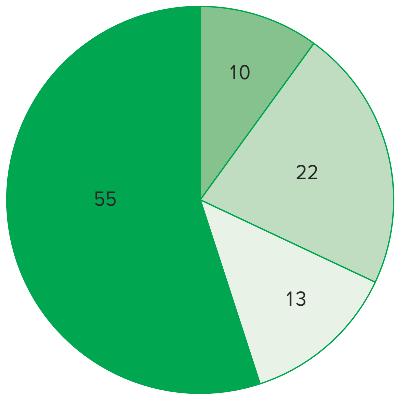
The cement industry faced a number of challenges in FY2021 from COVID-19 and consequent lockdowns. Cement demand was impacted as construction activities came to a halt while production witnessed supply chain disruptions and manpower shortages. During the year, most cement businesses adopted an approach of cutting costs as there was a fall in cement related activity due to lockdowns. This in turn, lead to a contraction in both demand and supply.

The initial lockdown imposed in the month of March 2021 had a major and immediate impact on the demand for cement. However, in spite of this set back, the cement sector is on the path to recovery and has reported strong performance post-lockdown. This growth can be attributed to pent up demand and the resumption of government infrastructure projects and construction activity. The push towards investment in the infrastructure segment will have a tremendous impact on the demand for cement across the country. Additionally, the Government of India has been emphasising on self-reliance and has taken several policies to strengthen domestic manufacturers.

Post the initial lockdown, the cement industry has seen a revival in fortunes with cement producers declaring their capex expansion plans in the first quarter of the calendar year 2021. The sector itself is estimated to witness a contraction between 11 to 13% while capacity utilisation was reduced by almost half in FY2021.

SECTORAL CONTRIBUTION OF DEMAND TO CEMENT INDUSTRY

Segment (%)



Source: CARE Ratings, Company Filings

The governments renewed focus on capital expenditure and infrastructure development is likely to have a positive impact on the demand for cement. With the expansion to 7400 new projects under the National Infrastructure pipeline and the governments objective of establishing 100 smart cities, the requirement for cement in construction is immense.

Under the Pradhan Mantri Aawas Yojna, which is the government's urban housing scheme, the central government has allocated an additional ₹18,000 crore towards the completion of housing projects. This is remarkable since the housing segment as a total makes up to 68% of all cement demand in the country. Additionally, there is a growing demand for affordable housing and houses that can be bought at a cost of ₹ 40 to 50 lakhs each.

The demand for cement is tied to growth in the housing and infrastructure segments. In the Union Budget, the central government has allotted ₹ 40,000 crore towards rural infrastructure. This will supplement the construction activities and further enhanced the rural demand for cement. Additionally, the rural economy has done well due to steady agricultural growth and a moderate monsoon. Demand for cement was enhanced due to availability of labour and disposable incomes in villages which in turn led to repairs and construction.

The cement sector in India also benefits from the wide variety of raw materials such as coal and limestone. While government investment in coal has doubled, over the last 10 years its production has grown by 100 million tonnes. Similarly, it is expected that in 2021-22 the cement industry will produce more than the 333 million tons which was recorded the previous year.

Outlook

There are a number of infrastructure projects that will be commenced in South India such as the 464 km long Bengaluru-Chennai expressway that will also connect Chhattisgarh, Odisha, and Andhra Pradesh, highway projects in Tamil Nadu spanning 3500 km and highway projects in Kerala spanning 1100 km. These projects are likely to enhance the demand for cement in the south. The second wave of the virus has proven itself to be a major challenge for both the country and the cement industry. On the whole, the long term outlook of the sector remains robustly positive based on the government's infrastructure push and greater construction activity.

Impact of the second wave on the cement industry

Cement prices were largely stable across the country, despite the danger of the second wave. High cement prices have helped mitigate the impact of high costs and weak demand. Demand for cement in March 2021 was exceptionally good but fell in the following month due to a sharp correction. This was due to lockdowns being implemented in the light of the second wave. In the span of one month, the demand had declined by 25 to 40%. Additionally, while demand from infrastructure was high, rural segment demand fell back to moderation.

SCL PERFORMANCE REVIEW

Operational performance

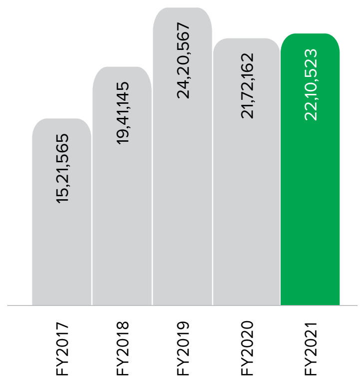
At the onset of FY 2021, construction activities were largely halted due to the lockdown and this was reflected in our sales. At the same time, production suffered due to the unavailability of labour. Despite this, as the economy slowly opened up we found our stride and our efforts in efficiency enhancement and cost optimisation paid off. We were able to maintain our margins and derive benefit from the expansion in CPP and Bayyavaram. By the second quarter there was a greater demand from the rural areas and a fewer disruption in production. This momentum was carried forward into the third quarter as government push towards infrastructure and demand from housing gave cement an even greater thrust. FY 2021 saw SCL in good stead. While revenue was up by 17%, profitability was up by 600% as compared to the previous year. However, margins were impacted due to diesel and pet-coke prices.

Once our projects in Odisha and Madhya Pradesh are completed, it will lead to further cost optimisation, particularly from the logistics view. Overall, we should be able to fulfil our objective and achieve 10 MnT capacity by the year 2025.

STANDALONE PERFORMANCE

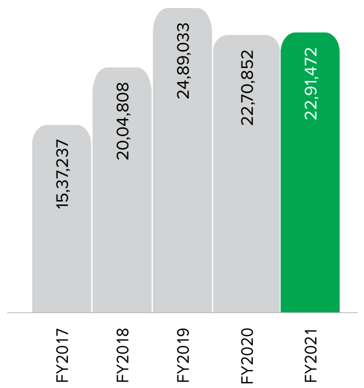
Cement Production / Purchase

(in T)



Cement sales

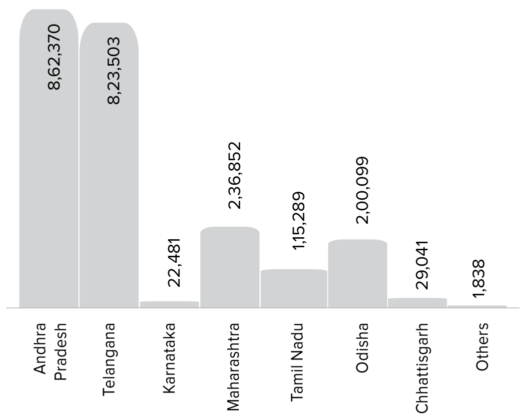
(in T)



Business Performance

Region wise sales

(in T)



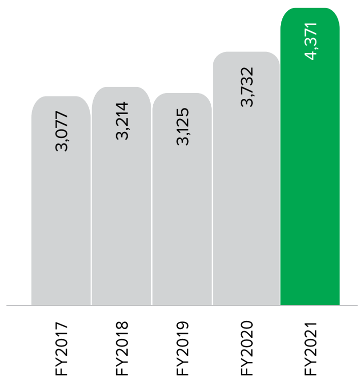
Particulars	FY2021	FY2020
Cement Production (in T)	22,10,523	21,72,162
Cement Sales (in T)	22,91,472	22,70,852
Average Net Sales Realisation per T	4,371	3,732
Total Revenue (₹ in Lakhs)	1,02,239	86,390
EBITDA (%)	33	16

(₹ in Lakhs)

Particulars	Standalone		Consolidated	
	FY2021	FY2020	FY2021	FY2020
Total income	1,02,239	86,390	1,37,910	1,17,918
Total Expenses	78,000	81,767	1,09,799	1,12,951
Profit Before Tax	24,239	4,623	28,111	4,967
Total Tax	8,043	1,150	9,551	2,314
Profit After Tax	16,196	3,473	18,560	2,653
Other Comprehensive Income	8	(42)	7	(39)
Total Comprehensive Income	16,204	3,431	18,567	2,614
Basic & Diluted Earnings Per Share of ₹ 10 each (₹ Per Share)	70.02	16.17	80.24	12.36

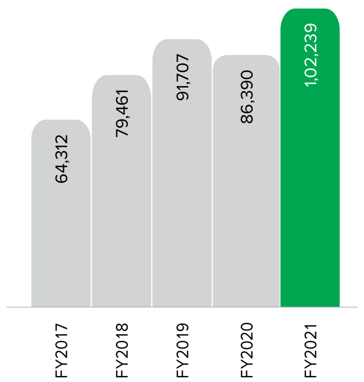
Average Net sales Realisation

(₹ per T)



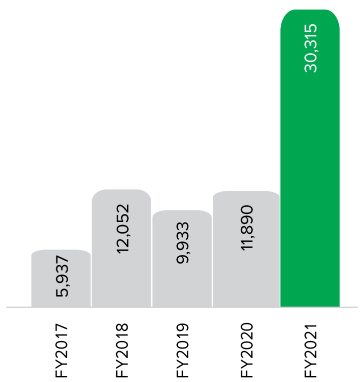
Total Income

(₹ in Lakhs)



EBITDA

(₹ in Lakhs)



FINANCIAL RATIOS

Sr No.	Particulars	FY2021	FY2020
1	Debtor's Turnover Ratio	11.93	9.80
2	Inventory Turnover Ratio	11.60	9.08
3	Interest Coverage Ratio	9.64	3.65
4	Current Ratio	1.06	0.83
5	Debt Equity Ratio	0.13	0.14
6	Operating Profit Margin (%)	27	9
7	Net Profit Margin (%)	16	4
8	Return on Net worth (%)	13	3

Our sustainability performance, across environmental, social, human and governance aspects can be found on page 50 of the Integrated Report.

Outlook

As we go forward, we will continue to deliver on our stated strategic focus areas of capacity expansion, cost efficiency, technology adoption and overall ESG integration. We also continue to work diligently towards containing the costs and improving our efficiencies. Our capex projects in MP and Odisha, which are nearing completion, will help us rationalise our freight cost and provide us with a more diversified locational advantage. They will also add on to our cash flows and chart the next wave of our growth. We are aligned to meet our growth ambition of touching 10 MTPA capacity by 2025.

The future of our organisation will be characterised by diversified presence, better product mix, and strategic cost rationalisation. This will essentially help us capitalise on the massive infrastructure opportunities in India, including development plans in the South and emerging projects in the Central and Eastern belts. The future remains strongly optimistic for us, and we believe the best is yet to come.

RISK MANAGEMENT SYSTEM

While we are subject to normal external business risks associated with similar companies operating within the cement industry, we attach utmost importance to the assessment of internal risks and the management thereof in all its dealings. Like any other dynamic business organisation, we are constantly on the lookout for identifying new opportunities to enhance 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, we are 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.

We possess adequate systems to manage the financial risks of our operations. It's 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 our facilities.

INTERNAL CONTROLS AND AUDIT

The Board of Directors are satisfied with the adequacy of the internal control system currently in force in all our major areas of operations, 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 and secretarial auditor's and based on their inputs, your Board is of the opinion that the Company's internal controls are adequate and effective.

Note: Information on technology, human resources, environmental and CSR initiatives have been covered in detail in the integrated report section.