Management's Discussion & Analysis

Review of Economy

Global Economy

In the beginning of FY2022, the pandemic continued to wreak havoc, causing significant negative impact on businesses and society as a whole. New variants of the COVID-19 led to a fresh round of lockdowns across the globe. The most immediate impact was felt in the form of rising prices of crude oil and supply chain disruptions, leading to a rise in inflation that weighed down growth in emerging economies considerably. This moderated the projected growth rate for FY2022 to 4.4%, down from 5.9% in FY2021.

With the widespread administration of covid vaccines, a level of immunity was achieved against the ever-growing threats of new covid variants, boosting economic recovery. Apart from vaccines, governments and central banks play a major role in reviving the economy. They drive traction and capital expenditure to ensure that money keeps flowing in the economy, expedited through relevant policy framework. Many sectors were revitalised owing to the outburst of pent up demand and a growing flexibility in aligning to the changing dynamics. Sectors like tourism and hospitality need more stimulus and will only regain a degree of normalcy once countries open up their doors to international travel. The recovery rate for each country depends on investments made on advanced healthcare, along with accommodative fiscal policies. Countries with a strong infrastructural foundation find it much easier to bounce back from the impact of the pandemic.

The ongoing Russia-Ukraine conflict will have major ramifications for the global economy. Both these countries are major commodity producers and supply chain disruptions will have prices going upwards in the rest of the world. There is also a severe concern around rampant climate change that has been showing its effect all over the world. A UN report released in August 2021 warns about an impending climate catastrophe unless strong measures are taken to control green house gas emissions. Another report from Deloitte suggests that increased occurrence of natural calamities like storm, floods and droughts will impact 70% of industrial production around the planet.

Outlook:

The efficacy of vaccines and astute macro-economic policies adopted by governments will be fundamental to the revival of businesses across the world. The pandemic has laid bare the increasing need for collaborative approaches to tackling global crises. We now have the necessary experience to manoeuvre through these pandemic infused disruptions. Although economic output in the developed world is projected to return to pre-covid levels in 2022, they will continue to remain below for the emerging market economies. With the volatile crude oil prices and vulnerable supply chains, inflation is also expected to remain elevated this year. Global collaborative effort is the need of the hour to address the severe financial impact resulting from climate change related extreme weather events.

Indian Economy

India set an ambitious target of vaccinating 1 Billion+ people at the beginning of 2021. This large-scale vaccination drive has injected immunity into our vulnerable populations to safeguard from covid related fatalities. However, infections skyrocketed with advent of new strains of the virus. Hospitals were once again overwhelmed with severe shortage of oxygen supply, while frontline workers were once again overburdened. With subsequent lockdowns and accelerated vaccinations, India gradually emerged out of the second wave, witnessing an uptick in economic growth.

The central government prioritised capital expenditure by allocating ₹7.5 Lakh Crores, an increase of 35% over previous year. The central government also had strong focus on projects promoting infrastructure development with the belief that increased investments in infrastructure will propel growth in other industries. The Reserve Bank of India predicted that the economic growth rate will stand at 7.8% for 2022-2023. However, the overall Consumer Price Index would remain higher at 6% as of January 2022 due to high input cost, supply side disruptions and rising crude oil prices.

Despite pandemic concerns, India has shown a positive trajectory towards economic recovery through higher:

- GST collections
- UPI transactions
- Passenger and freight traffic via air and rail
- FDI influx

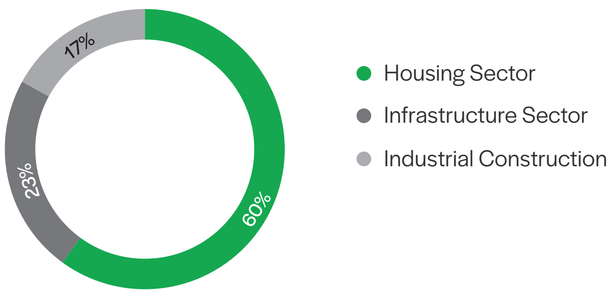
Outlook:

Outcomes of both external and internal volatilities will shape how Indian economy would perform in the coming year. While the overarching threat of newer covid variants continue to remain, we are in a comfortable position to manage it with our aggressive vaccination drive and contingency plans pertaining to the outbreak will be suitably addressed. The task at hand is to continue with the pace of economic recovery across all sectors including tourism, which was hit badly in 2021. With the government's focus on infrastructure, heavy industries like steel, cement, machinery etc. are expected to see higher demand.

Industry Review

The cement industry is expected to grow at 7% in FY2022 due to factors such as infrastructure growth, increased activity in urban and rural housing, rising rural incomes and an overall industrial growth. This optimistic demand growth for cement will primarily be driven by housing and infrastructure sector. The Investment Information and Credit Rating Agency of India Limited (ICRA) expects around 20% volume growth in cement production to 355 million metric tonnes this fiscal year.

Cement Consumption*



*Source: Systematix Institutional Research, Industry

The union budget FY2022 has allocated ₹ 48,000 Crores towards the Pradhan Mantri Awas Yojana to build affordable houses in urban and rural India. The private real estate sector is also witnessing a strong demand in Tier II and Tier III cities, with the growing preference for compact gated homes among nuclear families being a major reason for this. The National infrastructure pipeline worth ₹ 111 Lakh Crores is slated to be invested in road, rail, energy and water projects. Along with the home and construction sector, demand for industrial sector is driven by data centres for technology companies and warehousing requirements to meet rising demands for e-commerce.

This ramped up demand will also put considerable pressure on the resources that are needed to produce cement. Cement manufacturing is a highly water and energy intensive process. To grow sustainably, greener products and manufacturing techniques need to be developed. There has been an sharp degree of awareness among the people regarding blended cement, which consumes less water. Cement manufacturers are emphasising on switching to renewable sources and waste recycling to reduce their impact on the environment. Research and tech-driven product innovation are crucial for long term value creation in the cement industry.

Outlook:

Demand for cement will continue to grow throughout the year. As we move to a remote working set up, the demand for affordable housing is expected to rise in smaller urban towns. Indian cement companies are known to be the greenest manufacturers in the world. Prime Minister Narendra Modi has announced the PM Gati Shakti plan for achieving multimodal connectivity across various economic sectors. The objective is to create an integrated connectivity transport framework for the movement of people, goods and services through multiple transport modes seamlessly. This is expected to boost cement demand even further.

Some key infrastructure projects expected to be commissioned in the next 5 years include:

Project	Cost (₹)
Navi Mumbai International Airport	16,700 Crores
Jewar International airport	5,730 Crores
Chenab Railway Bridge	1,486 Crores
Delhi-Mumbai Expressway	98,000 Crores
Mumbai-Ahmedabad High Speed Corridor	1.10 Lakh Crores
Bangalore-Chennai Expressway	18,000 Crores

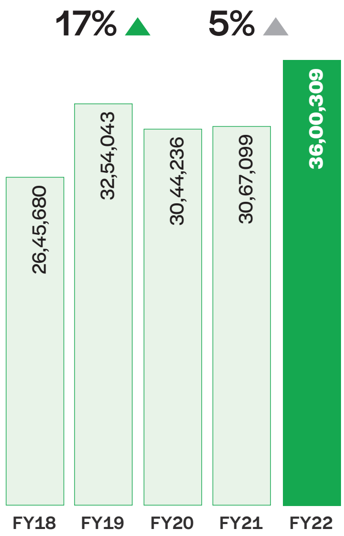
SCL Performance Review on consolidated basis

Operational Performance

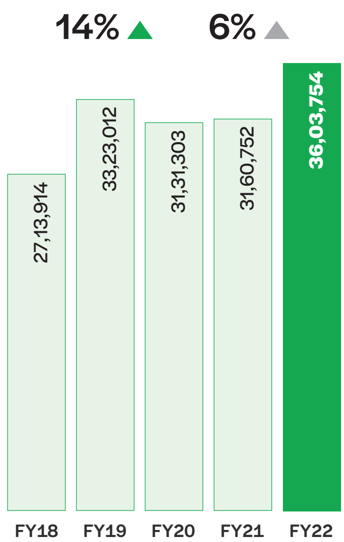
We were able to ramp up our production capacity to 8.25 MTPA, with the commissioning of our Jeerabad and Jajpur plants in FY2022. This has helped us move a step closer to our target of achieving a capacity of 10 MTPA cement by the year 2025. We have also successfully expanded to newer markets in Maharashtra and Odisha, increasing our customer base.

The operating margins were under pressure due to high costs of inputs like coal, coke and diesel. The Company has conducted operations maintenance for all its plants, resulting in additional expenditure. We expect a better pricing environment moving forward.

Cement production
(in MT)

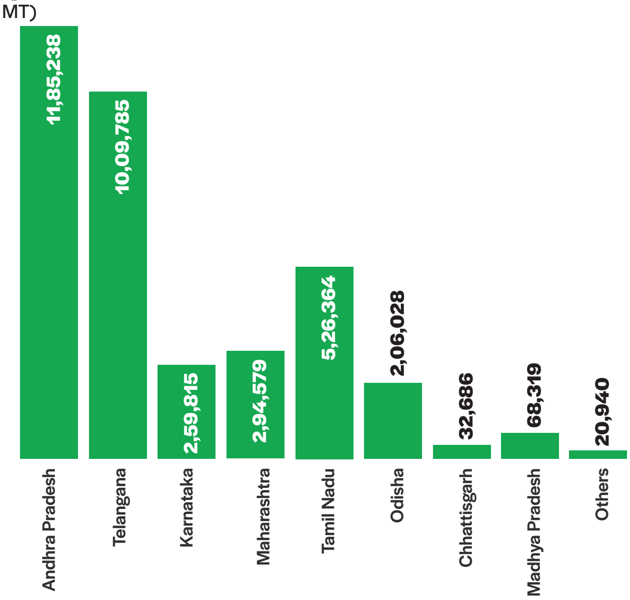


Cement Sales
(in MT)



Business Performance

Region wise sales
(in MT)



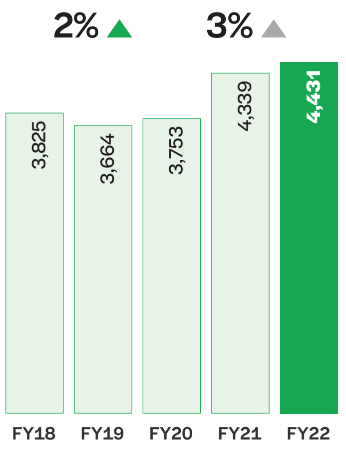
▲ YoY growth ▲ (5-year CAGR)

Particulars	FY2022	FY2021
Cement Production (in T)	36,00,309	30,67,099
Cement Sales (in T)	36,03,754	31,60,752
Average Net Sales Realisation per T ₹	4,431	4,339
Total Revenue (₹ in Lakhs)	1,59,687	1,37,132
EBITDA (%)	17	30

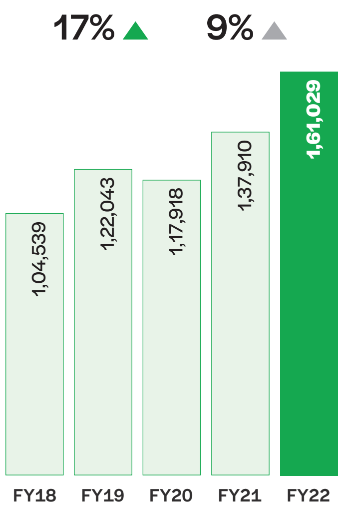
(₹ in Lakhs)

Particulars	FY2022	FY2021
Total income	1,61,029	1,37,910
Total Expenses	1,50,629	1,09,847
Profit Before Tax	10,400	28,063
Total Tax	4,485	9,451
Profit After Tax	5,915	18,612
Other Comprehensive Income	131	7
Total Comprehensive Income	6,046	18,619
Basic & Diluted Earnings Per Share of ₹ 2 each (₹ Per Share)	5.03	16.09

Average Net sales Realisation
(₹)

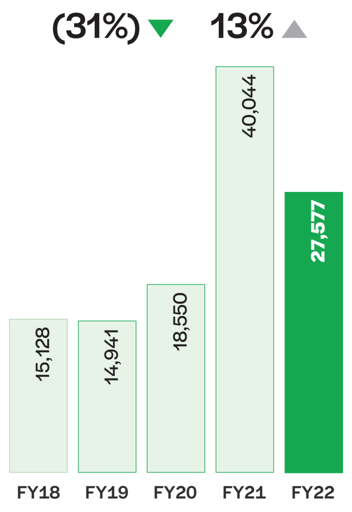


Total Income
(₹ in Lakhs)



YoY growth (5-year CAGR)

EBITDA
(₹ in Lakhs)



Financial ratios

Sr No.	Particulars	FY2022	FY2021
1	Debtor's Turnover Ratio (Sales of Products and Services / Average Trade Receivable)	13.22	10.67
2	Inventory Turnover Ratio (Sales of Products and Services/ Average Inventory)	9.23	11.27
3	Interest Coverage Ratio* [Cash profit after adjusting depreciation / Interest expense during the period] [Cash profit after adjusting depreciation: Profit After Tax + Interest + Depreciation]	2.64	6.74
4	Current Ratio (Current Assets / Current Liabilities excl. Current Borrowings)	1.92	1.71
5	Debt Equity Ratio** (Debt / Net Worth) [Debt: Long term secured loans + Current maturities of long term debt + Loan term unsecured loans+ Cash credit facilities]	1.15	0.66
6	Operating Profit Margin* (%) [(Profit before Depreciation, Interest, Tax and Exceptional Item Less Other Income)/ Sales of Products and Services]	17	30
7	Net Profit Margin* (%) [Profit after tax/ Sales of Products and Services]	4	14
8	[Return on Net worth* (%) (Net Profits after taxes)/ Average Shareholder's Equity]	5	16

*During the financial year ended 31st March 2022 their had been significant increase in the power and fuel expenses when compared to previous financial year, which has impacted the operating margins, resulting in variations in ratios.

**During the financial year ended 31st March 2022 the Company had taken loan for inorganic and organic growth, has resulted in variations in ratios.

Outlook

We continue to create consistent value through our strengths aligned with our strategy that include capacity expansion, technological innovation, trusted partnerships and giving importance to being carbon sensitive. Our new plants at Jeerabad and Jajpur allow us to optimise our freight expense as we set our sight at serving newer geographies. We aim to achieve 10 MTPA capacity through these units while harnessing technology to innovate products that are eco-friendly to limit our impact on the environment.

The steadfast trust of our stakeholders makes us the preferred brand among all our customers, suppliers, contractors and the communities we operate in. This trust also gives us wings to grow sustainably. We remain strongly optimistic about future, where we can strategically capitalise on the growing demand in Southern, Eastern and Central India.

Risk Management System

As a cement manufacturer, we are subject to internal as well as external uncertainties that shape our risk management policy. While internal risks can be managed with stringent compliance systems, external risks depend on multiple variables that are beyond our control. Robust risk management ensures we anticipate any problem before hand and strategise plans to mitigate them effectively.

We are responsive to newer opportunities that would create greater value for our shareholders. Every significant proposal is scrutinised at all levels to identify any risks involved. It is approved only after the management is sure that necessary risk assessment has been done thoroughly.

Any financial risk management pertaining to operations is implemented through internal, statutory and cost audits. These audits are periodically carried out by authorised auditors. The JMD heads the risk management committee, which reviews day to day risks of the organisation. Risk review meetings are conducted to analyse the implemented plans and identification and mitigation of newer areas of concern.

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 our auditors including, the financial, cost our 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.