Management Discussion and Analysis

Review of Economy

Global Economy

The global economy in 2022 was largely dominated by high inflation, the Russia-Ukraine crisis and outbreak of COVID-19 infection strains. The rapid increase in interest rates by central banks concerned impacted demand and global GDP growth. The commodity prices however have moderated from the high level seen immediately after the Russia-Ukraine conflict. Lower food and energy prices and an easing of the supply chain are positives. Consequently, headline inflation has declined from its peak witnessed in 2022, though core inflation continues to remain high.

A hard landing for the global economy is expected due to persistent inflation and financial sector turmoil. The rapid increase in interest rates to control inflation has brought forth the vulnerabilities of the banking sector. In such a scenario, policymakers must balance controlling inflation and ensuring financial stability while providing much needed fiscal support and international cooperation to sustain economic recovery. According to the IMF, GDP growth is forecast to drop from 3.4% in 2022 to 2.8% in 2023 and settle at 3.0% in 2024. Advanced economies should anticipate a considerable growth decrease, from 2.7% this year to 1.3% the following year. Global headline inflation is expected to drop from 8.7% in 2022 to 7.0% in 2023 because of lower commodity prices, even as core inflation is likely to decline slowly.

China's reopening in November 2022 brought back a positive sentiment for the manufacturing sector along with easing out of logistical challenges. The manufacturing cost has increased globally, driven by higher raw material and energy costs, as well as supply disruptions. Despite these challenges, businesses particularly in manufacturing and services have been working hard to maintain their profitability and competitiveness. By adapting to changing market conditions and implementing new strategies, many companies have been able to weather these challenges and continue to thrive in today's economic landscape.

Indian Economy

In the above background, India witnessed a remarkable recovery in the post-COVID world, delivering one of the best performances in terms of economic output. The economy is experiencing sustainable growth, as evident from the country's estimated 6.9% growth rate in FY2023 that surpasses that of other major economies. The service, manufacturing and export sectors sprung back to action in the post-COVID environment. The revival facilitated by the government's spending on infrastructure and other key economic drivers yielded positive results, with almost all sectors of the economy experiencing a robust recovery. To contain inflation, the government pursued supply-side reforms, promoted exports and tightened monetary its policy.

During FY2023, the government increased capital spending by 37%. Its priorities remain on critical infrastructure projects such as expressways, high-speed rail, mass transit systems, airports, and affordable housing. The spending in these areas also contributed to normalising the allied sectors that were affected by the pandemic, and, in turn, led to investments and job creation.

With a nominal GDP of US$ 3.53 trillion, India is the fifth largest economy in the world. According to the forecasts by IMF, by 2030 it will surpass Japan and Germany as the third-largest economy and the fastest-growing major economy. As part of the Indian government's Atmanirbhar Bharat initiative, the PLI scheme aims to make India a manufacturing powerhouse by reducing imports and incentivizing local production.

Outlook

The International Monetary Fund (IMF) has projected India's GDP growth to be 5.9% in FY2024, and 6.3% in FY2025, driven by strong private sector investment and supported by improvement in transport infrastructure and logistics. The Union Budget 2023-24 has allocated a record amount of ₹ 10 Lakh Crores for capital expenditure, which will boost infrastructure development, create jobs, and stimulate demand in the economy.

India's economic growth rate is outpacing many advanced and emerging economies thanks to a strong emphasis on domestic consumption. The government's strong infrastructure push under National Master Plan for Multimodal Connectivity, logistics development, and industrial corridor development will help drive market competitiveness and fuel future growth. The improvement of labour market conditions and consumer confidence will increase private consumption. Additionally, contact-intensive services have already on a rebound, nearing pre-COVID levels.

Despite this, potential risks still exist for India's growing economy. OPEC production levels could push up oil prices, possible issues with financial sectors of advanced countries could increase risk aversion across financial markets and impede capital flows, and an the El Nino event may weaken Indian monsoon rains, thus affecting food security.

Industry Overview

India is the world's second-largest cement producer, and this is attributed to an ever-increasing investment housing sector and infrastructure investment. Between 2013 and

2022, 217 MT of capacity were added, raising the installed capacity to 570 MT from 353 MT in 2012. Despite the challenges due to the pandemic, cement producers have been able to deleverage on positive demand and make profitable gains.

The primary demand driver for the cement industry will continue to be India's expanding housing sector, which normally accounts for 65% of the country's total cement consumption. The Union Budget for the year 2023-24 has an outlay for PM Awas Yojana, which is being enhanced by 66% to over ₹ 79,000 Crores (US$ 9.6 billion) to build affordable houses in urban and rural India. India built 12,000 kilometres of roadways in 2022, and this momentum is projected to continue in 2023 and 2024, supported by a number of governments programmes, which would further increase cement demand.

The cement demand in FY2023, though started on a mute note because of the inflationary environment, picked up pace in the second half as global raw material prices stabilised. Cement volumes grew by 8-9% in FY2023 to 380-385 million tonne, driven by housing demand, both rural and urban, and the infrastructure sector. Cement manufacturers are wary of further increasing their prices and this is leading to an impact on their profitability margins. Cost optimisation through tech enablement and innovating manufacturing processes have become extremely important for firms to sustain in the long run.

India's cement manufacturers are known to be the greenest in the world, with their emphasis more on producing cement that has a lower carbon footprint in the manufacturing process. They recycle industrial waste and use less energy while keeping the CO2 emissions at a low level.

Outlook

Capacity expansion for 2023-2027 is estimated at 145-155 MT, with a CAGR of 5%. This can be attributed to population growth and government investments in infrastructure projects. A CAGR of 6-7% in cement over that time will likely drive the supply increase. Demand for cement will be driven by infrastructure upgrades, rural housing and urbanisation. With the next general elections in India to be held in 2024, government spending on critical infrastructure will likely to be high.

Performance Review on Consolidated Basis

Operational Performance

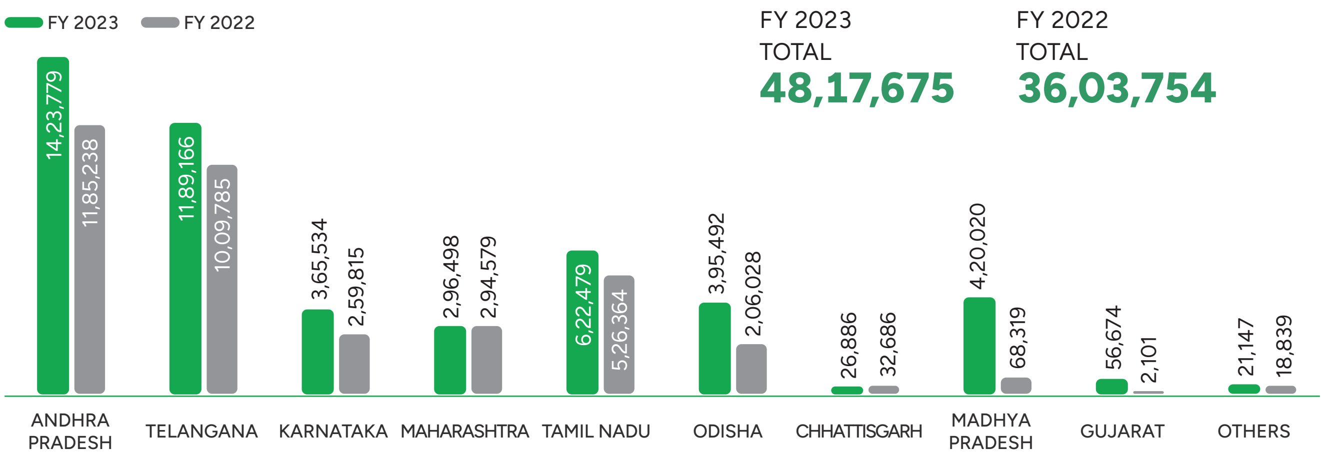
Our cement production increased by 32% in FY2023, driven by production from new plants and higher utilisation of existing plants. Our consolidated sales grew to 4.8 million tonnes in FY2023 (FY2022: 3.6 mnt), led by increased volumes in South India and additional volumes from the newly commissioned plants in Madhya Pradesh and Odisha.

With the recent acquisition of Andhra Cements Limited in March 2023, we are able to increase our production capacity to over 10 MTPA, ahead of our target in FY2025. We have also successfully expanded our customer base to newer markets in Maharashtra and Odisha.

However, our operating margins took a hit due to the high costs of input materials like coal, coke and diesel.

Particulars (tonnes)	FY 2023	FY 2022
Cement production/ purchases	48,25,480	36,08,163
Cement sales volume	48,17,675	36,03,754

Region wise sales (in MT)



Financial Performance

Our revenue/income increased by 40% to ₹ 2,230 Crores led by higher volumes and higher pricing. The EBITDA declined during the year by 44% to ₹ 153 Crores due to higher inputs costs. PAT for the year was ₹ 9 Crores, down by 86% from a year ago, on account of lower profitability and higher interest expense. expense.

Particulars (₹ in Lakhs)	FY 2023	FY 2022
Total income/revenue	245,224	1,61,029
Total Expenses	243,377	1,50,629
EBITDA	15,318	27,577
Profit Before Tax	1,847	10,400
Profit After Tax	850	5,915
Basic & Diluted Earnings Per Share of ₹ 2 each (₹ per share)	0.66	5.03

Financial ratios

Sr No	Particulars	FY 2023	FY 2022
1	Debtor's Turnover Ratio (Sales of Products and Services / Average Trade Receivable)	15.96	13.22
2	Inventory Turnover Ratio (Sales of Products and Services/ Average Inventory)	9.04	9.23
3	Interest Coverage Ratio [Cash profit after adjusting depreciation / Interest expense during the period] [Cash profit after adjusting depreciation: Profit After Tax + Interest + Depreciation]	1.98	2.64
4	Current Ratio (Current Assets / Current Liabilities excl. Current Borrowings)	1.68	1.92
5	Debt Equity Ratio (Debt / Net Worth) [Debt: Long term secured loans + Current maturities of long-term debt + Long term unsecured loans+ Cash credit facilities]	0.87	1.15
6	Operating Profit Margin* (%) [(Profit before Depreciation, Interest, Tax and Exceptional Item Less Other Income)/ Sales of Products and Services]	7.00	17.00
7	Net Profit Margin* (%) [Profit after tax/ Sales of Products and Services]	0.40	4.00
8	[Return on Net worth* (%) (Net Profits after taxes)/ Average Shareholder's Equity]	1.00	5.00

* During the financial year ended 31st March 2023 due to increased power & fuel costs, operating margins were impacted, resulting in variations in ratios.

Sustainability

Sagar Cements always has high regard for the natural ecosystem. FY23 marks yet another milestone with our ESG vision document. We have laid out a roadmap on our performance on various ESG parameters and have set medium to long term targets to achieve it. It is a testament for our commitment to be net zero by 2050. Read more about our ESG vision on page 30.

Technology

Sagar Cements is leveraging its advanced technology to manufacture high-quality cement at cost-effective prices, resulting in a compelling value proposition for its customers. Our commitment to innovation and continuous investment in research and development are enabling us to introduce distinctive products and solutions that cater to the evolving needs of our customers belonging to a sector that is striving to reduce its carbon emissions.

Outlook

We continue to create consistent value through capacity expansion, technological innovation, and sustainable manufacturing techniques. Our plants spread across south, central and eastern India help us optimise our costs while contributing for our expansion in newer geographies. We are committed to increase the share of green cement in our portfolio through technological innovation that would limit our impact on the environment.

The steadfast trust of our stakeholders makes us a 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 for cement in Southern, Eastern and Central India.

Risk Management

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 beyond our control. Robust risk management ensures we anticipate problems and mitigate them effectively. Our risk management committee monitors any emerging risks that might prove to be a hindrance in the future.

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

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

Read more about our risks management on Page 26.

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: Human Resources, Environmental and CSR initiatives have been covered in detail in the Integrated Report section.