# MANAGEMENT DISCUSSION AND ANALYSIS

Sagar Cements Limited is a prominent cement manufacturer in India renowned for its strong presence in the southern markets and committed to actively expanding its footprint in the central and eastern regions. With a rich legacy of over four decades, we have consistently delivered high-quality cement products, firmly establishing ourselves as a trusted name in the construction industry.

Our strategically located manufacturing units in the southern, central and eastern parts of the country allow us to cater to diverse markets efficiently. We actively adopt sustainable manufacturing practices and innovative processes, underscoring our commitment to minimising our environmental impact. As we move ahead in our growth journey, our unwavering focus continues to be on delivering excellence and contributing to the advancement of the construction sector.

## Global economy

In 2023, the global economy indicated signs of stabilisation, propelled by a rapidly recovering US economy and the resilience of significant emerging markets. The risk of a global recession was further reduced by positive factors such as robust labour markets, heightened household consumption, and the overall strength of emerging economies. The International Monetary Fund (IMF) projects a global growth rate of 3.1% in 2024, with a marginal increase to 3.2% anticipated in 2025.

### Outlook

The current near-term global economic scenario presents potential positive developments as well as a variety of risks. The escalating geopolitical tensions in certain regions could have significant repercussions affecting the global economy. Moreover, several countries have implemented tighter monetary policies to control inflation, resulting in an impact on demand for both consumer and business products. This combination of geopolitical uncertainties and monetary policy adjustments brings complexity and uncertainty to the current economic landscape.

## Indian economy

India demonstrated resilience amidst a challenging global environment, rising to become the fifth-largest global economy with an estimated GDP of $ 3.7 trillion in FY2024. The National Statistical Office (NSO) reported, based on the First Advance Estimates of National Income, that India's real GDP is projected to grow at 7.3% for FY2024. The GDP growth rate surpassed expectations to rise to a six-quarter high of 8.4% in the third quarter (October-December) of 2023-24. This growth is attributed to robust domestic demand and strong performance in the manufacturing and services sectors.

The Government of India continues to prioritise infrastructure spending as a strategic move to generate a multiplier effect on economic growth and job creation, and to stimulate both private consumption and investment spending. In a bold initiative, the capital expenditure for FY2025 has been increased by 11% to ₹ 11.1 Lakh Crores, up from the ₹ 10 Lakh Crores allocated in the previous budget. This decision highlights the government's commitment to strengthening infrastructure, identifying it as a fundamental driver for sustainable economic growth.

Furthermore, the budget has targeted the construction of two Crores houses under the Pradhan Mantri Awas Yojana (Grameen) over the next five years and proposed a housing scheme tailored for the rising middle-class population of the country. These measures reflect the government's proactive stance towards fostering economic growth, driving job creation and addressing the crucial aspects of housing and infrastructure development.

## India's GDP Growth Trend (%)

| FY2021-22 | FY2022-23 | FY2023-24 |
|---|---|---|
| 9.1 | 7.2 | 7.3 |

Source: Ministry of Statistics and Program Implementation (MosPI)

### Outlook

In 2024, India's economic landscape appears stable and on an upward trajectory. Positive trends are anticipated in various sectors, notably in services and manufacturing, particularly in education, healthcare, IT, and industries under the Production-Linked Incentive (PLI) scheme. These favourable developments are expected to benefit the real estate sector. The strong momentum in manufacturing, coupled with urban spending surpassing rural demand and increased investments positions the country on a promising growth path.

## Industry overview

Cement demand in India is experiencing a steady increase. The past year witnessed strategic shifts within the cement industry, with environmental consciousness and implementation of sustainable practices. According to ICRA, cement volumes demonstrated a significant year-on-year increase of approximately 12%, reaching 243 million Metric Tonnes Per Annum (MTPA) in the first seven months of FY2024. The outlook suggests a further growth of 9-10% in FY2024, totalling around 425-430 million MTPA, primarily driven by demand from the urban housing and infrastructure sectors. Projections for FY2025 indicate a continued positive trend, with volumes expected to increase by 8-9%, reaching around 460-465 million MTPA.

The infrastructure segment maintains a robust demand due to increased government spending across various infrastructure segments. The housing segment, constituting 55% of cement demand, is anticipated to witness steady growth on the back of healthy traction in rural housing and urban real estate projects. The government's consistent emphasis on affordable housing will further help sustain the demand for cement.

## Key trends

**Infrastructure development and urbanisation:** Infrastructure development and urbanisation continue to be significant drivers of the cement industry. This is due to the trend of urbanisation that propels the demand for housing, transportation, and urban amenities, thereby sustaining cement consumption.

**Sustainability takes centre stage:** Faced with rising environmental concerns and regulations, cement manufacturers are compelled to reduce their carbon footprint. In the year, a persistent shift towards more sustainable practices is anticipated. This will include the adoption of alternative cementitious materials, the integration of carbon capture technologies, and the implementation of energy-efficient production processes. Cement companies that actively embrace sustainability are likely to gain a competitive advantage in the evolving market landscape.

**Circular economy practices:** The industry is rapidly adopting circular economy practices witnessed in the increasing commitment to reducing waste, reusing materials, and recycling by-products. By 2024, a rise in the use of alternative raw materials, particularly industrial by-products, is expected, as a means to decrease the industry's reliance on conventional resources.

**Digital transformation and Industry 4.0:** A notable digital transformation is underway in the cement industry, aligning with Industry 4.0 principles. Technologies such as automation, data analytics, and artificial intelligence are being integrated to optimise production processes, enhance efficiency and reduce operational costs. The landscape of cement plants in the future is envisioned to be smarter and more efficient, more interconnected, and equipped for real-time monitoring and decision-making.

### Outlook

In FY2025, the cement demand is expected to maintain its healthy momentum, primarily fuelled by the government's emphasis on infrastructure spending and its flagship housing initiatives. Projections suggest a potential increase in capacity additions, with an estimated range of 34-38 million Metric Tonnes Per Annum (MTPA) in FY2024 and 29-32 million MTPA in FY2025. This growth follows the addition of 27 million MTPA in FY2023, reflecting optimistic prospects driven by a healthy demand outlook.

The expansion is likely to be particularly prominent in the eastern and central regions, with an expected addition of 19-21 million MTPA in each region during FY2024 and FY2025. The focus on geography underscores the anticipation of heightened demand and investment opportunities in these areas. Overall, the industry's trajectory suggests a positive way forward characterised by an expansion in capacity and demand, and significant contributions from government-led initiatives.

## Performance review on a consolidated basis

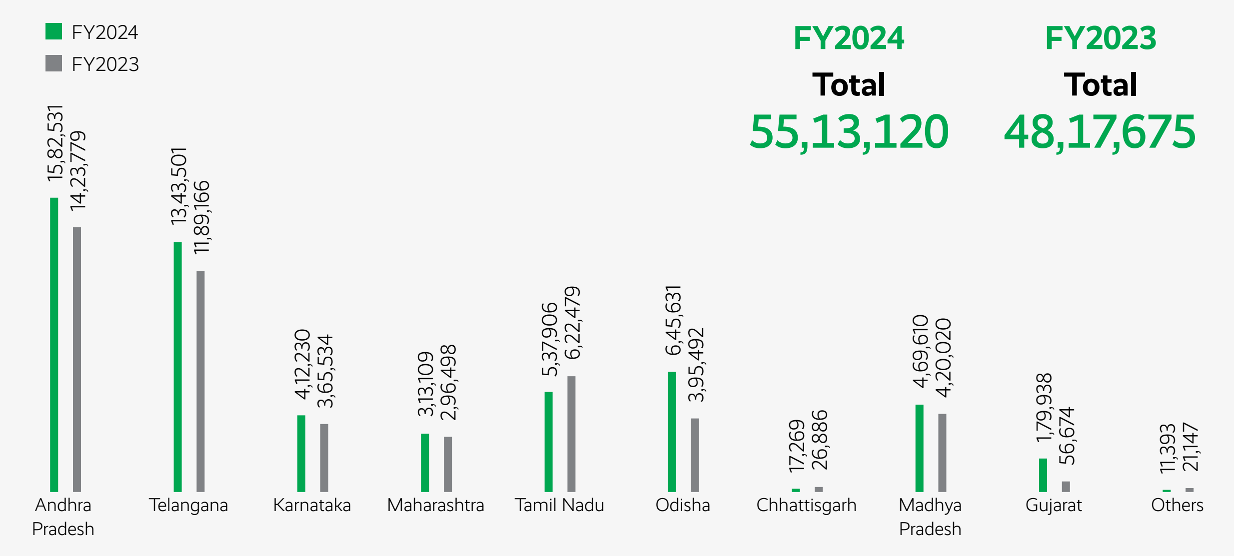
### Operational performance

Our cement production in FY2024 increased by 15% to 5.5 million tonnes – a result of production from the new plants and higher utilisation of existing plants. Our consolidated sales grew to 5.51 million tonnes in FY2024 (FY2023: 4.82 million tonnes) on the back of increased sales from Dachepalli plant of recently acquired Andhra Cements Limited. Capacity utilisation stood at 53% during FY2024 (FY 2023: 58%).

Operating margins improved by 300 bps to 10%. Improved profitability was driven by increased operating leverage and steady realisations.

| Particulars (tonnes) | FY2024 | FY2023 |
|---|---|---|
| Cement production/ purchases | 55,15,285 | 48,25,480 |
| Cement sales volume | 55,13,120 | 48,17,675 |

## Region-wise sales (in MT)




## Financial performance

Total income increased by 4% to ₹ 2,55,873 Lakhs. EBITDA increased by 300 bps to 10%. PAT for the year was ₹ (5,205) Lakhs.

| Particulars (₹ in Lakhs) | FY2024 | FY2023 |
|---|---|---|
| Total Income | 2,55,873 | 2,45,224 |
| Total Expenses | 2,65,764 | 2,43,377 |
| EBITDA | 24,591 | 15,318 |
| Profit Before Tax | (8,412) | 1,847 |
| Profit After Tax | (5,205) | 961 |
| Basic & Diluted Earnings Per Share of ₹ 2 each (₹ Per Share) | (3.98) | 0.74 |

## Financial ratios

| Sr No | Particulars | FY2024 | FY2023 | Reasons for increase/decrease (more than 25%) |
|---|---|---|---|---|
| 1 | Debtor's Turnover Ratio<br>(Sales of Products and Services / Average Trade Receivable) | 13.55 | 15.96 | |
| 2 | Inventory Turnover Ratio<br>(Sales of Products and Services/ Average Inventory) | 8.64 | 9.04 | |
| 3 | Interest Coverage Ratio<br>[Cash profit after adjusting depreciation / Interest expense during the period]<br>[Cash profit after adjusting depreciation: Profit After Tax + Interest + Depreciation] | 1.88 | 1.99 | |
| 4 | Current Ratio<br>(Current Assets / Current Liabilities excl. Current Borrowings) | 1.32 | 1.70 | |
| 5 | Debt Equity Ratio<br>(Debt / Net Worth)<br>[Debt: Long-term secured loans + Current maturities of long-term debt + Loan term unsecured loans+ Cash credit facilities] | 0.71 | 0.71 | |
| 6 | Operating Profit Margin (%)<br>[(Profit before Depreciation, Interest, Tax and Exceptional Item Less Other Income)/ Sales of Products and Services] | 10.00 | 7.00 | Operating profit margin improved during FY24 by 300 bps as a result of reduction in power & fuel cost when compared to FY23. |

| Sr No | Particulars | FY2024 | FY2023 | Reasons for increase/decrease (more than 25%) |
|---|---|---|---|---|
| 7 | Net Profit Margin (%)<br>[Profit after tax/ Sales of Products and Services] | (2.08) | 0.43 | Net profit margin & Return on net worth got adversely impacted during FY24 since operations of the recently acquired subsidiary Andhra Cements Limited is still in the process of getting ramped up. |
| 8 | Return on Net Worth (%)<br>[(Net Profits after taxes)/ Average Shareholder's Equity] | (2.55) | 0.57 | |

## Sustainability

Sagar Cements continues to prioritise the preservation of the natural ecosystem. FY2023 represented a significant achievement with the introduction of our ESG vision document. We outlined a roadmap detailing our performance across various ESG parameters and established medium to long-term targets to attain these goals. This stands as a testament to our unwavering commitment to achieving a net-zero status by 2050.

Read more about our ESG vision on PG 4

## Technology

We leverage cutting-edge technology to meet our goal of producing high-quality cement at affordable prices and create a compelling value proposition for our customers. Our dedication to innovation, along with ongoing investments in research and development, empowers us to develop unique products and solutions that address the evolving needs of our customers. The adoption of the latest technology is relevant for a sector that is actively working towards minimising its carbon emissions.

## Outlook

We generate value by expanding our capacity, embracing technological innovation, and adopting sustainable manufacturing practices. Our strategically located plants across south, central, and eastern India help optimise costs and facilitate our expansion into new geographies. Our resolve to increasing the share of green cement in our portfolio is indicative of our dedication to minimising our environmental impact through technological advancements.

The unwavering trust demonstrated by our stakeholders has established us as a preferred brand among customers, suppliers, contractors, and the communities in which we operate. This trust is a catalyst for our sustainable growth. Looking forward, the Indian cement industry holds substantial potential for sustainable development. SGC is poised to capitalise on these opportunities by focusing on capacity building, maintaining an emphasis on quality and innovation, and aspiring to secure a larger market share in north India while retaining our current leadership position. We are strongly optimistic about a future in which we strategically leverage the growing demand for cement in southern, eastern and central India.

## Risk management

We face both internal and external uncertainties that influence the formulation of our Risk Management Policy. Stringent compliance systems are effective in handling internal risks, while external risks are contingent on several uncontrollable factors. A robust risk management approach enables the anticipation and proactive mitigation of emerging risks. Our dedicated Risk Management Committee actively evaluates the day-to-day risks faced by the Company and ensures timely mitigation measures are implemented.

The Joint Managing Director (JMD) leads the Risk Management Committee. Regular risk review meetings are convened to analyse the effectiveness of implemented plans and to identify and address emerging areas of concern.

We remain receptive to new opportunities that can enhance shareholder value. However, thorough scrutiny is applied to every significant proposal across all organisational levels to pinpoint and assess associated risks. Approval is granted only after a comprehensive risk assessment has been conducted. Financial risk management related to operations undergoes scrutiny through a combination of internal, statutory, and cost audits, which are periodically conducted by accredited auditors.

This multifaceted approach underscores our commitment to a dynamic and vigilant risk management strategy to navigate the ever-evolving landscape of our industry.

Read more about our risks management on PG 31.

## 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.